MONTHLY TAX FEATURES

Volume 24, Number 9, October 1980

Tax Foundation, Inc.

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States' Tax Take Hits $125 Billion, Tops Income and Population Gains

State tax collections continued their unabated move upward in fiscal year 1979, scoring their 39th consecutive increase since 1940, when the Bureau of the Census began publication of annual state tax data, according to Tax Foundation economists. The latest year's gain of 10.3 percent brought total collections to $125 billion. Although it represented a sizable dollar rise over 1978 (almost $12 billion), it was the smallest percentage increase since the recession year 1975, when the rise was only 8 percent. The slower rate of growth in 1979 appears to reflect recent statutory reductions in state taxes, especially personal income levies, according to Foundation researchers.

The 1979 state tax take was three times as large as a decade earlier. For the period 1969 to 1979 taxpayer contributions to state treasuries swelled at an average annual rate of 11.5 percent. This increase far outpaced most economic indicators. For example, population rose an average of only eight-tenths of one percent annually, consumer prices 7.0 percent a year, and personal income 9.9 percent annually. (Federal taxes, rising by 15.1 percent from 1978 to 1979, far outpaced the latest state increase for the year; however, for the preceding decade the annual rise in Federal taxes, 9.7 percent, was almost two percentage points below the state increase.)

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Tax Index by Level of Government and Related Measures
Quarterly, at Seasonally Adjusted Annual Rates, 1967 = 100

Year and quarter	Tax Index: All governments	Tax Index: Federal	Tax Index: State and local	GNP index[a]	Price index[b]
1978 I	279.1	264.7	309.1	252.6	186.1
II	295.3	282.8	321.4	264.2	190.9
III	302.8	294.3	320.5	271.2	194.2
IV	315.5	308.6	330.1	280.7	198.4
1979 I	322.3	316.4	334.7	287.8	202.8
II	328.5	323.4	339.2	292.6	207.3
III	340.3	336.1	349.1	301.0	211.6
IV	351.7	349.3	356.5	308.5	215.9
1980 I[r]	359.6	358.3	362.3	316.6	220.9
II[d]	355.1	353.5	358.4	317.0	226.5

[a]Gross national product in current dollars.
[b]Implicit price deflator for gross national product.
[r]Revised.
[d]Preliminary.
Source: U.S. Department of Commerce, Bureau of Economic Analysis; and Tax Foundation computations.

Tax Index Declines In Second Quarter As Profits Drop

The Tax Index in the second quarter of 1980 slid to 355.1 (1967 equals 100) from 359.6 in the first quarter. This represented a decline at an annual rate of 4.9 percent, and marked the first quarterly drop in the Tax Index in five years.

The latest quarter's fall in the Index, which occurred in both Federal and state-local taxes, reflected a sharp decline in corporate profits tax accruals. Virtually all other taxes continued to rise.

The previous reduction in the Index, experienced in the second quarter of 1975, was a temporary one due solely to a statutory rebate in Federal income taxes; state-local taxes continued to climb.

In the second quarter of 1980, in contrast to the Tax Index, nominal gross national product rose very slightly (at an annual rate of 0.5 percent), and prices continued their upward spiral at an annual rate of 10.5 percent.

At a level of 355.1 in the second quarter, the Tax Index remained well above the GNP index of 317.0 and the price index of 226.5 (all on the 1967 base).

The accompanying table presents the Tax Index, along with related measures, on a quarterly basis for 1978 to date.

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The Front Burner

By Robert C. Brown
Executive Vice President
Tax Foundation, Inc.

"Beyond the Ballot Box"

It's that time of year, and the exaggerated rhetoric and campaign hoopla are something that we Americans cherish just as much as we sometimes cherish throwing pop bottles at the umpires at the ballgame. It's something non-Americans never really understand.

At the Tax Foundation, we must walk a more restrained path, ever mindful that the credibility of an organization like the Foundation is always on the line. For us to take such a freewheeling approach would hamper our effectiveness. It might take people's minds off the real issues at stake.

A lot of lip service has been paid this past year to restraining government spending, balancing the budget, enacting a constitutional amendment to require a balanced budget or limiting Federal spending to a percentage of the nation's total income or output.

These kinds of issues have been in the public policy debates all year long. And they are going to be around for at least another congressional session.

There is a deep-seated recognition today from many quarters that our tax and fiscal policy is on the wrong track, that we really need to get on with restoring the capital stock of this country, that we can't continue to tax it away or else we'll simply get to the point where there isn't anything left to tax.

I believe it was J. S. Mill who pointed out that the interest of government is to tax heavily, that of the community is to be as little taxed as the necessary expenses of the government permit. In a nutshell, that's still the big issue. The interest of the government is to tax heavily, to provide for all of the programs that the government believes the people should be exposed to. But the people who have to pay the taxes are not always willing to continue to pay for the other guy's pet programs. Another observation of Mill's is this: The very principle of constitutional government requires it to be assumed that political power will be abused to promote the particular purposes of those who hold power, not because this always happens but because such is the natural tendency of things. Guarding against this tendency is the special use of free institutions.

Behind all the rhetoric and all the election hoopla, that is still one of the major issues confronting our nation this fall, regardless of who is elected on November 4. The Tax Foundation's contribution to the evolution of public policy is to provide the economic and fiscal data for that debate in an objective fashion. It is very frustrating to come from such an organization and, in dealing with the political elements of government, to see that data misused, distorted for short-term gain, or ignored—frustrating, but also greatly challenging.

In my opinion, unless we meet the challenge and continue to keep these basic issues on the front burner, no matter who wins in November, we will all end up losers.

State-Local Pension Assets Climb; Governments Now Pay Lion's Share

Thanks largely to taxpayer contributions and high investment earnings, the financial assets of state-local employee pension systems chalked up a $19 billion gain in fiscal year 1979, rising to a new high of $161.6 billion, Tax Foundation economists report. Holdings of these pension funds are now almost nine times as large as they were in 1960 and three times their size as recently as 1975.

Annual receipts of the funds mirror this trend in assets, and also reflect a gradual shift in financing on the part of governments (taxpayers), investment earnings, and employees. Total receipts amounted to $31.9 billion in fiscal year 1979, more than nine times receipts in 1960. Over the 19-year span, government contributions accounted for 48 percent of the rise in annual receipts, investment earnings for 35 percent, and employee contributions for 17 percent. Investment earnings have shown the fastest relative growth over the years, and thus somewhat obscure the shifting mix of employee versus employer contributions. For example, in fiscal 1979, for every dollar contributed by employees to the systems, taxpayers put up $2.51. In contrast, in 1960 taxpayers paid just $1.55 for every dollar of employee contributions.

Nineteen years ago, Foundation economists note, state-local retirement systems had total receipts of $3.4 billion, of which $1.1 billion (32.4 percent) was derived from employee contributions, $1.7 billion (50 percent) from government contributions, and $0.6 billion (17.6 percent) from earnings on investments. By 1979, total receipts had risen to $31.9 billion, and the mix had altered sharply.

State and local governments poured $15.3 billion (48 percent) into their retirement systems in 1979 while employees were supplying less than half that amount ($6.1 billion, or 19.1 percent), considerably less than investment earnings which provided $10.5 billion (32.9 percent).

In 12 states and the District of Columbia, governments supplied more than half of the pension fund reve-

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About Tax Features

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Pension Assets

(Continued from page 2)

nues: Delaware (65 percent), Michigan (63 percent), District of Columbia (63 percent), Oklahoma (61 percent), New York (58 percent), Florida (57 percent), Connecticut (55 percent), Indiana (55 percent), Tennessee (54 percent), Maine (53 percent), Massachusetts (51 percent), and Pennsylvania (51 percent). In only one state, New Hampshire, do public employees contribute less than one-third (28 percent) of pension fund receipts.

Assets and Annual Receipts of State and Local Employee Retirement Systems

Selected Fiscal Years 1960-1979

(Billions)

Year	Cash and security holdings[a]	Receipts by source: Total	Employee contributions	Government contributions	Investment earnings
1960	$ 18.5	$ 3.4	$1.1	$ 1.7	$ .6
1965	31.8	5.3	1.6	2.4	1.2
1970	54.9	9.8	2.8	4.6	2.5
1975	98.1	18.9	4.5	9.1	5.3
1976	111.5	21.6	4.8	10.5	6.3
1977	123.5	25.3	5.2	12.4	7.7
1978	142.6	28.0	5.7	13.6	8.7
1979	161.6	31.9	6.1	15.3	10.5

[a]As of end of fiscal year.

Source: Compiled by Tax Foundation from annual reports of the U.S. Department of Commerce, Bureau of the Census.

Receipts of State and Local Employees' Retirement Systems by State

Fiscal Year 1979

State	Amount (millions): Total receipts	Employee contributions	Government contributions	Earnings on investments	Percent of total receipts: Employee contributions	Government contributions	Earnings on investments
TOTAL	$31,949.5	$6,068.6	$15,336.4	$10,544.5	19	48	33
Alabama	393.1	81.6	190.6	120.8	21	48	31
Alaska	156.4	33.4	76.5	46.5	21	49	30
Arizona	375.5	109.1	127.6	138.9	29	34	37
Arkansas	170.7	36.8	83.4	50.5	22	49	30
California	5,260.3	1,031.3	2,502.7	1,726.3	20	48	33
Colorado	431.9	111.9	171.5	148.5	26	40	34
Connecticut	394.2	78.1	215.1	101.1	20	55	26
Delaware	71.6	9.4	46.2	16.0	13	65	22
Florida	838.2	45.3	477.2	315.6	5	57	38
Georgia	504.5	123.3	223.5	157.7	24	44	31
Hawaii	218.4	56.5	72.9	89.1	26	33	41
Idaho	77.2	22.4	35.6	19.2	29	46	25
Illinois	1,717.4	475.2	712.5	529.7	28	41	31
Indiana	311.2	60.7	170.1	80.4	20	55	26
Iowa	258.7	56.4	109.2	93.2	22	42	36
Kansas	201.6	47.2	96.6	57.7	23	48	29
Kentucky	325.6	85.1	142.8	97.7	26	44	30
Louisiana	469.6	129.6	172.6	167.3	28	37	36
Maine	102.6	30.5	54.1	17.9	30	53	17
Maryland	574.7	129.7	262.6	182.3	23	46	32
Massachusetts	750.1	203.7	379.9	166.5	27	51	22
Michigan	1,386.1	73.2	868.6	444.4	5	63	32
Minnesota	558.2	132.2	266.4	159.7	24	48	29
Mississippi	226.6	75.5	87.1	64.0	33	38	28
Missouri	435.3	90.5	180.6	164.1	21	41	38
Montana	97.1	32.9	35.1	29.0	34	36	30
Nebraska	67.2	17.8	23.4	26.0	27	35	39
Nevada	121.9	16.4	53.6	51.9	13	44	43
New Hampshire	47.3	19.1	13.2	15.0	40	28	32
New Jersey	948.5	199.3	426.6	322.6	21	45	34
New Mexico	146.4	42.1	54.1	50.2	29	37	34
New York	4,993.4	201.9	2,911.4	1,880.1	4	58	38
North Carolina	637.6	161.5	237.5	238.5	25	37	37
North Dakota	29.9	9.4	11.4	9.2	31	38	31
Ohio	2,020.9	508.8	823.4	688.7	25	41	34
Oklahoma	227.4	37.6	137.9	51.8	17	61	23
Oregon	288.0	88.1	128.4	71.5	31	45	25
Pennsylvania	1,726.2	326.6	878.4	521.2	19	51	30
Rhode Island	102.3	28.8	41.0	32.6	28	40	32
South Carolina	306.1	76.0	108.2	121.9	25	35	40
South Dakota	49.8	16.9	18.6	14.3	34	37	29
Tennessee	476.6	96.6	256.6	123.4	20	54	26
Texas	1,198.8	370.8	444.6	383.4	31	37	32
Utah	170.9	61.9	67.4	41.6	36	39	24
Vermont	38.7	9.1	13.0	16.6	24	34	43
Virginia	421.3	125.0	172.8	123.6	30	41	29
Washington	630.4	156.7	288.5	185.1	25	46	29
West Virginia	154.3	43.4	74.3	36.7	28	48	24
Wisconsin	749.3	65.2	348.8	335.3	9	47	45
Wyoming	50.7	16.7	17.9	16.1	33	35	32
Dist. of Columbia	38.8	11.4	24.3	3.1	29	63	8

Source: Department of Commerce, Bureau of the Census, and Tax Foundation computations.

Investments generated the highest proportion of revenue income in Wisconsin (45 percent of the total), Vermont (43 percent), Nevada (43 percent), Hawaii (41 percent), and South Carolina (40 percent). The lowest percentages of earnings from pension fund investments were obtained in Oklahoma (23 percent), Delaware and Massachusetts (both 22 percent), Maine (17 percent), and the District of Columbia (8 percent).

Not only has there been a significant change in current financing of state-local pension systems as compared with 1960, but there has also been a drastic shift in the composition of investment portfolios of public pension funds, Tax Foundation analysis reveals. Federal and state-local securities, which in 1960 comprised more than half the total, amounted to less than one-fifth (18 percent) by 1979. Conversely, corporate stocks and bonds, which made up about one-third in 1960, now account for 63 percent. However, the figures for 1979, as did those for 1978 and 1977, show some partial reversal of this over-all, long-range trend. While government securities made up but 11 percent in 1976 (and 16 percent in 1978), they now constitute 18 percent. At the same time, corporate stocks and bonds which comprised 74 percent in 1960 (66 percent in 1978) now make up but 63 percent.

The accompanying tables show receipts of state-local retirement systems by source for 1979 and also assets and annual receipts of these systems for selected years since 1960.

State Taxes

(Continued from page 1)

Fastest growing offspring in the family of state taxes are individual and corporate income levies, according to economists at the Tax Foundation. From 1969 to 1979, individual income taxes chalked up the highest average annual growth rate (15.8 percent). Corporate income taxes were second (14.3 percent), while general sales taxes placed third (12.2 percent). Since 1969, the combined share of individual and corporate income levies has grown from 25.6 percent of total state taxes to 35.8 percent.

General sales taxes, the Foundation's researchers point out, continue to be the largest single source of state tax revenues, accounting for 31.6 percent of the tax take in 1979. Individual income taxes are next, comprising 26.1 percent of the total. Selective sales taxes (combined) run third at 19.3 percent, followed by corporate income taxes at 9.7 percent.

The state tax profile outlined by Tax Foundation economists shows a great diversity in tax structure:

- Nine states have no broad-based personal income tax. These are Connecticut, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming.

- Five states have neither a corporate income tax nor a personal income tax. These are Nevada, South Dakota, Texas, Washington, and Wyoming. (The 45 remaining states impose a corporate levy.)

- Washington State has the highest dependence on general sales tax in the country, deriving 56.1 percent of its tax revenues from this source. South Dakota is second most dependent on general sales, which account for 53.2 percent of the state's tax revenues.

- Per capita income taxes are highest in Delaware ($371), Oregon ($319), and Minnesota ($309), compared with a national average of $149.

Tax Index

(Continued from page 1)

The Tax Index is a new fiscal yardstick unveiled in May 1980 by Tax Foundation economists. The Index is designed to provide a continuing measure of trends in taxes, on a basis comparable to official indexes for other segments of the economy. (For other perspectives on the Tax Index see *Monthly Tax Features*, May 1980 and August 1980.)

- Corporate taxes, per capita, are highest in Alaska ($633), Michigan ($108), and California ($105), compared with a national average of $55. (Alaska's 1979 corporate tax collections catapulted 667 percent over 1978, reflecting a legislative change in the methods used for computing, allocating, and apportioning the taxable income of multistate oil and gas producers and pipeline transportation companies, effective January 1, 1978. The tax rate remains unchanged.)

- The state most dependent on individual income taxes for revenue is Oregon, which derives 58.3 percent of state levies from this one source. Massachusetts is second (45.1 percent); Delaware, third (43.9 percent); New York, fourth (43.5 percent); and Wisconsin, fifth (42.2 percent).

The table below shows the growth pattern and makeup of state tax revenues for selected years from 1969 to 1979.

TF Dinner/Conference Will Hear Addresses by McCracken and Volcker

Tax Foundation's 32nd National Conference and 43rd Annual Dinner will take place December 3 at New York City's Plaza Hotel. As reported in the August issue of *Monthly Tax Features*, the theme of this year's Conference is "Tax Policy, the Budget, and Unemployment." The day-long Conference will explore major tax and fiscal issues confronting the U.S. economy at the beginning of the 1980s and will feature analysis and discussion by leading authorities and public officials.

Paul W. McCracken, former chairman of the President's Council of Economic Advisers and currently Edmund Ezra Day University Professor of Business Administration at the University of Michigan, will be the featured speaker at the Luncheon.

The Honorable Paul A. Volcker, Chairman of the Board of Governors of the Federal Reserve System, will receive Tax Foundation's Distinguished Public Service Award for 1980 at the Foundation's Annual Dinner. Mr. Volcker will be the featured speaker at the Dinner, which will be held in the Grand Ballroom of the Plaza Hotel.

For the convenience of our readers, the Reservation Form for the Conference and Dinner on December 3 is attached.

Composition and Growth of State Tax Revenues by Source

Selected Fiscal Years 1969-1979

Fiscal year	Total state taxes[a] (millions)	General sales, use, or gross receipts	Motor vehicle fuel sales	Tobacco products sales	Alcoholic beverage sales and licenses	Motor vehicle and operators' licenses	Individual income	Corporate net income	All other[b]
		Percent of total							
1969	41,931	29.7	13.5	4.9	3.3	6.4	18.0	7.6	16.6
1974	74,207	30.5	11.1	4.4	2.8	5.1	23.0	8.1	15.0
1975	80,155	30.9	10.3	4.1	2.6	4.9	23.5	8.3	15.4
1976	89,256	30.6	9.7	3.9	2.5	4.9	24.0	8.1	16.3
1977	101,085	30.6	9.0	3.5	2.3	4.5	25.2	9.1	15.8
1978	113,142	31.1	8.4	3.2	2.2	4.3	25.7	9.5	15.6
1979	124,963	31.6	8.0	2.9	1.9	3.8	26.1	9.7	16.0
		Percentage rates of growth, 1969-1979							
Annual	11.5	12.2	5.9	5.9	5.7	5.9	15.8	14.3	11.1
Cumulative	198.0	217.5	76.8	77.0	74.0	78.0	333.4	281.4	187.2

[a]Excludes unemployment insurance taxes.
[b]Includes other selected sales and gross receipt taxes, licenses, property, severance, death and gift, and miscellaneous taxes.
Source: Department of Commerce, Bureau of the Census, and Tax Foundation computations.

TAX FOUNDATION CONFERENCE/DINNER
DECEMBER 3, 1980

Tax Policy, the Budget, and Unemployment

MORNING SESSION—9:00 A.M.

Chairman: Wallace J. Clarfield
Vice President
Olin Corporation

"Tax Policy and the Budget"

I. 1981 Economic and Fiscal Policy Outlook—Has "Supply-Side" Economics Taken Over?

—John M. Albertine, Executive Director, Joint Economic Committee

—Richard W. Rahn, Vice President and Chief Economist, Economic Policy Division, Chamber of Commerce of the United States

QUESTION PERIOD

II. The Congressional Budget Process—Can it Work? "Reconciliation," "Sunset," and Other Stratagems—Implications for Tax and Expenditure Policy in the 1980s

—John J. King, Tax Specialist, Committee on the Budget, U.S. House of Representatives

—Allen Schick, Specialist in American Government and Public Administration, Congressional Research Service, Library of Congress

—Paul Craig Roberts, Senior Fellow in Political Economy, Georgetown University Center for Strategic and International Studies

QUESTION PERIOD

LUNCHEON SESSION—12:15 P.M.

Chairman: David M. Roderick
Chairman of the Board and
Chief Executive Officer
U.S. Steel Corporation
President, Tax Foundation, Inc.

III. Reindustrializing America

—Paul W. McCracken, Edmund Ezra Day University Professor of Business Administration, University of Michigan

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AFTERNOON SESSION—2:15 P.M.

Chairman: Ralph R. Adams
Director, Unemployment and
Workers Compensation Activity
General Motors Corporation

"The Unemployment Insurance System—Which Way Ahead?"

IV. Financing Problems of the 1970s—What Went Wrong?

—E. H. Kay, Tax Attorney, Sears, Roebuck & Co.

V. Recommendations of the National Commission on Unemployment Compensation

—Labor View ..... Edward T. Sullivan, Business Manager, Service Employees International Union Local 254

—Industry View ..... J. Eldred Hill, Jr., Executive Director, UBA, Inc.

QUESTION PERIOD

32nd National Conference

9:00 A.M. Conference Sessions: $30 Baroque Suite

12:15 P.M. Reception and Luncheon: $30 Grand Ballroom

43rd Annual Dinner

6:30 P.M. (Black Tie Optional) Reception and Dinner: $65 Grand Ballroom

IMPORTANT NOTES

Your reservation will be acknowledged by the Tax Foundation. Tickets will be mailed prior to the Dinner and Conference. Notice of cancellation must go to Ms. Betty Austin (202) 328-4540 and tickets must be returned for refund. Full refunds will be made before November 24; after that, there will be an 80 percent refund on the return of tickets. No refunds after Conference date. Requests for hotel accommodations should be sent directly to the hotel of your choice. Conference attendees will receive the published **Proceedings.**

Detach and Return Lower Half

Reservation Form

To: **Tax Foundation, Inc.** / 1875 Connecticut Avenue, N.W. / Washington, D.C. 20009

Please make the following reservations. **Enclosed is check payable to Tax Foundation, Inc. in the amount of $ _____.**

NAME TITLE	CHECK FOR		
	Conference Sessions	Luncheon	Dinner

COMPANY: _____

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MONTHLY TAX FEATURES

Volume 24, Number 10, November-December 1980

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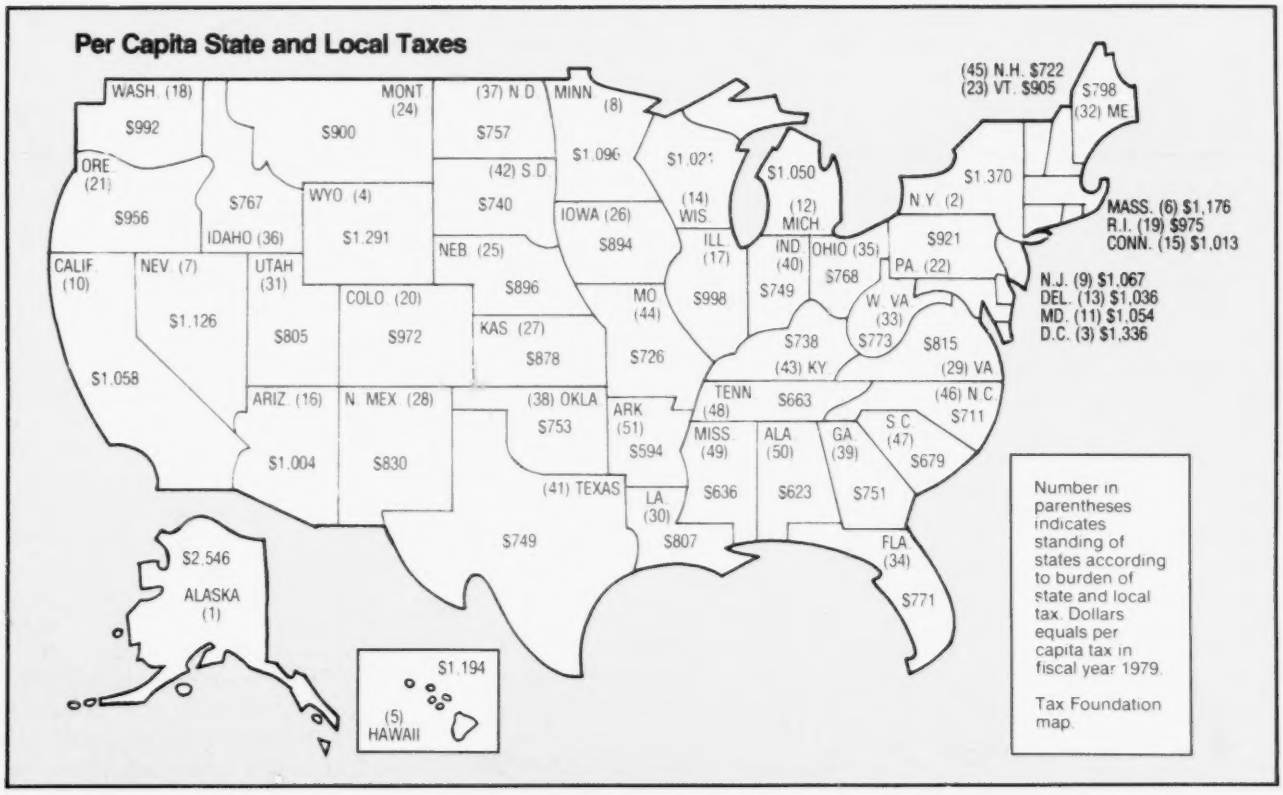

California's "Prop 13" Slows State-Local Tax Growth; Tax Increases in Rest of States Continue Unabated

Restrained by the effects of California's Proposition 13, general state and local tax revenues rose to $205.5 billion in fiscal year 1979, from $193.6 billion the previous year, an increase of only 6 percent, smaller than any previous year of the 1970s. The latest year's rise was some 5 percentage points below the 11 percent average annual increase which prevailed from 1969 through 1978.

California's state and local taxes dropped 12 percent from 1978 to 1979, reflecting a 45 percent slash in property tax yields. This sharp reduction in California, which in 1978 accounted for 14 percent of all U.S. state and local taxes, is what held the nationwide rise to 6 percent. In the remaining states, however, tax increases continued with little abatement, averaging 9 percent for 1979.

The 1979 experience notwithstanding, tax increases during the period from 1969 to 1979 were far from insignificant. State and local tax collections nearly tripled in the last decade, outpacing the growth of Federal levies and moving ahead of the growth in personal income for the period, Tax Foundation economists report.

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The Front Burner

By Robert C. Brown
Executive Vice President
Tax Foundation, Inc.

"No Room at the Top"

Compression is the "buzz word" for what is happening at the upper reaches of the Federal career Civil Service. Because of the linkage between salaries of top Federal career executives and members of Congress, there is an unrealistically low cap on compensation for some 30,000 of Uncle Sam's top managers. As a result, the government is finding it increasingly difficult to recruit and maintain a cadre of well qualified senior executives.

Unless this problem of managerial talent can be alleviated, our nation is in for a great deal of trouble. The Federal government is big; it is complex. It cannot function well unless rank-and-file employees are managed by highly qualified superiors. And like top-flight executives in private industry, the professional executive in the Civil Service expects—and deserves—compensation to match achievements, experience, and responsibilities.

The Tax Foundation has never favored wasting taxpayers' money. We have always insisted that the public is entitled to a dollar's worth of goods or services for every dollar in taxes taken from American earners.

By the same token, simple justice demands that public officials, who are rightly asked to render a close accounting of their stewardship, be paid at a fair level of compensation.

Because linkage to politically sensitive Congressional pay levels is holding their salaries down, many competent civil servants are "voting with their feet" by taking early retirement or refusing promotions to jobs where greater responsibilities would not be matched by greater pay.

The Commission on Executive, Legislative, and Judicial Salaries (Quadrennial Commission) can help to open up pay grades by recommending new pay levels and the end of linkage. The Commissioners can help convince the Congress and the public to end the compression which is driving so many talented men and women out of the public sector.

An extensive public education campaign will be needed. To mount it, the Commission would be the logical vehicle, if it were constituted as a year-round body with a professional staff.

That the laborer is worthy of his hire is a concept deeply rooted in our traditions. It remains true even when that laborer is a career bureaucrat in the Federal government. For in the government, as in the marketplace, we will most assuredly get what we pay for.

TF Seminar Discusses Taxation Of Compensation and Benefits

On Wednesday, October 22, 1980, the Tax Foundation hosted a seminar on the tax treatment of employee compensation. The seminar, open to TF members and other interested persons, was designed to highlight two critical features of the taxation of compensation: (1) the taxation of fringe benefits, and (2) the future direction and form of pension tax policy. The speakers addressing the taxation of fringe benefits were Don Ricketts, Assistant Chief of Staff for the Joint Committee on Taxation and Dale Hay, Vice President-Corporate Affairs, USAir and Chairman of the Fringe Benefits Task Force of the Tax Executives Institute. Speaking on the question of pension policy were Daniel Halperin, Deputy Assistant Secretary of the Department of Treasury; William Morris, General Counsel, Senate Finance Committee; Paul Jackson, Vice President, Wyatt Co.; and Solomon Upbin, Partner, Arthur Andersen & Co. Don Alexander, former Commissioner of the IRS and now Partner of Morgan, Lewis & Bockius, summed up the morning's talks as the luncheon speaker.

The tax treatment of employee fringe benefits will be of major concern to the 97th Congress because the freeze on attempts by the IRS to tap these sources of potential revenue expires on June 1, 1981. Don Ricketts outlined the basic options available to Congress next year. They range, he said, from yet another extension to legislation specifying which fringes are to be considered taxable and which will remain non-taxable. One approach which could yield the best results, according to Ricketts, would be for the IRS to draft and propose regulations on fringe benefits with the understanding that they would be subject to Congressional review after public comment. This would permit the greatest amount of interaction between the IRS, Congress, and the public in the drafting of workable legislation on fringe benefits. Business's interest in offering fringe benefits, Dale Hay claimed, is not primarily a way of circumventing the tax collector. The value of convenience to employers far outweighs the dollar value of most fringe benefits, he said. Hay also noted the difficulty in defining and measuring the value of fringe benefits to meet any *de minimis* rule. He also urged that business participate actively in the development of legislation.

Don Alexander echoed both Hay and Ricketts in his luncheon talk calling the present status "unsatisfactory" mostly due to the lack of uniformity in current application by IRS agents in the field.

About Tax Features

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End Linkage in Federal Salaries, Brown Advises U.S. Commission

The Commission on Executive, Legislative, and Judicial Salaries invited Robert C. Brown, Executive Vice President of the Tax Foundation, Inc., to testify before the Commission on November 7. The Quadrennial Commission, as it is commonly known, meets every four years "to make recommendations to the President on the appropriate level of compensation for the Vice President of the United States, for positions in the Executive Branch from Cabinet Officer through Level V, and for U.S. House of Representatives and Senators, Supreme Court Justices and other members of the Federal Judiciary." The text of Mr. Brown's testimony follows:

STATEMENT OF
ROBERT C. BROWN
EXECUTIVE VICE PRESIDENT
TAX FOUNDATION, INC.
BEFORE THE
COMMISSION ON EXECUTIVE,
LEGISLATIVE, AND JUDICIAL
SALARIES

The Tax Foundation welcomes the opportunity to appear again before this distinguished Commission and to contribute its recommendations concerning salary schedules at the highest levels of the Executive, Legislative, and Judicial Branches of the Federal government.

We leave to others the detailed discussion of the specific salary schedules which should prevail in the various branches of government, preferring to limit our own comments to a few major policy considerations which we feel are pivotal to the ability of our nation to recruit and retain highly competent civil servants and candidates for public office.

First of all is the question of Congressional pay. We testified before this distinguished Commission in 1976 and recommended that Congress be required to hold an affirmative, recorded vote on its own pay and that of the other two branches of the Federal government. We were happy to see that procedure enacted into law in April 1977 as the so-called Bartlett Amendment to the Federal Salary Act of 1967.

The Foundation has always believed that adequate compensation for elected officials is only just. Indeed, we have encouraged a pay level which would minimize or eliminate the need for elected officials to seek to augment their Congressional salaries by outside sources of income.

The debate over Congressional pay is as old as the Constitution—in fact, older. The Founding Fathers debated this question as the Constitution itself was being framed. Their discussions, and the subsequent history of this crucial issue, lead only to one conclusion: The supreme law of the land intends that Congress set its own pay. This has always been a difficult and uncomfortable task, but it is meant to be so. No matter what "side-door" approaches the Congress has devised over the two centuries of our national existence to soften this responsibility, the burden of increasing their own salaries perennially returns to the Congress's own doorstep. For this, as for their other actions, our nation expects its elected officials to answer to their constituents.

In 1925, when Congress was debating whether to raise its annual pay from $7,500 to $10,000, Ben Johnson, Democrat of Kentucky, told his colleagues: "If my constituents should say that I am not worth $10,000 a year here, then my answer to them is, Send somebody who is." It is our wish that each Senator and Representative could take the same forthright approach every time the issue of compensation is brought before the Congress.

Having said what we believe in, it now becomes incumbent on us to indicate those procedures which do not square with this belief. I have in mind the linkage of top-echelon Executive Branch pay to the pay scale of Congress and the compression of career civil servants' salaries which this causes. The members of this Commission do not need me to remind them that this linkage occurs, by law, through the salary levels set forth in the General Schedule. We testified on this matter in 1975 before the President's Panel on Federal Compensation. In 1976, we testified on the subject again—before the last round of hearings held by your Commission. We pointed out that: "The compression problem has resulted in the loss of competent personnel in key positions through early retirement at the peak of their capabilities, and in compounding the difficulties of recruiting top-level management people for important posts." The past four years have only increased the urgency of our words.

While some 2,500 salaries are actually set by the recommendations of this Commission, over 30,000 others are indirectly affected by the review process initiated every four years by this Commission. As long as a lockstep relationship prevails between Congressional pay and top-level executive salaries in the government, we feel that the work of the Commission will be gravely hampered and the best interests of the country will not be served. A career in the bureaucracy is categorically different from that of an elected official, and Federal pay policy should recognize this important distinction.

These then are our recommendations to this Commission on Executive, Legislative, and Judicial Salaries:

- Congressional pay should be set at such a level that the need to seek outside compensation is minimized or entirely eliminated.
- Congress should continue to vote, on the record, by affirmative "yea" or "nay" vote, for its own pay level.
- All linkage between pay levels of elected officials and pay levels of career civil servants should be eliminated as soon as possible.

Once again, thank you for the opportunity to present these views before this distinguished panel of citizens.

State-Local Taxes

(Continued from page 1)

The $218.0 billion in total state-local taxes (general and other) collected in 1979, represented a 175 percent increase over the $79.3 billion taken in by states and municipalities ten years earlier. Over the same decade, say researchers at the Foundation, Federal taxes rose 145 percent, consumer prices climbed 98 percent, U.S. population grew by only 9 percent, and personal income chalked up a 158 percent gain.

At the state-local levels, general tax collections (excluding unemployment insurance) climbed 168 percent in the ten years for an all-time high of $205.5 billion. Unemployment taxes, totaling $12.5 billion in 1979, chalked up an almost fivefold increase over the ten years, to raise the overall hike in state-local tax revenues by an extra 7 percentage points.

On the average, state-local governments collected $934 per capita in general taxes in 1979, about two-and-a-half times what they were taking in a decade earlier ($380). Per capita taxes more than tripled over the decade in Alaska (up 553 percent), the District of Columbia (212 percent), South Carolina (202 percent), and Wyoming (212 percent). California's increase (96 percent) was the smallest of any state.

Tax collections per $1,000 of personal income rose 7 percent during the decade, from $112 in 1969 to $120 in 1979. Most of this increase, however, had occurred by 1973. In the latest year reported, 1978 to 1979, there was a decline of 6 percent. Over the decade as a whole, increases in taxes per $1,000 of personal income exceeded 20 percent in Connecticut (23 percent), Delaware (22 percent), the District of Columbia (38 percent), Massachusetts (25 percent), and Rhode Island (23 percent). In eight states (including California), the rise in taxes did not match personal income gains.

Tax Foundation economists point to a number of other significant features in the state-local tax picture for 1979:

- The first-year impact of Proposition 13 in California brought about a decline in per capita taxes in the Golden Gate State, from $1,227 in 1978 to $1,058 in 1979—from 38 percent above the national average to 13 percent above it.
- California dropped from fourth to tenth place among the states in the amount of taxes claimed per capita and from fourth to twenty-fifth in the amount of taxes as a share of personal income.
- Alaska continues to rank highest in per capita tax revenues in 1979 ($2,546), followed by New York ($1,370), the District of Columbia ($1,336), and Wyoming ($1,291).
- Lowest taxes, per capita, can be found in Arkansas ($594), Alabama ($623), Mississippi ($636), Tennessee ($663), and South Carolina ($679).

The accompanying map and table provide details for state-local tax collections for 1969 and 1979.

State-Local Taxes by State[a]
Per Capita and Per $1,000 of Personal Income
Fiscal Years 1969 and 1979

State	Per capita taxes: Amount 1969	Amount 1979	Percent increase	Rank 1979	Taxes per $1,000 of personal income: Amount 1969	Amount 1979	Percent increase	Rank 1979
U.S. AVERAGE	$380	$ 934	146	—	$112	$120	7	—
Alabama	224	623	178	50	95	100	5	46
Alaska	390	2,546	553	1	97	234	141	1
Arizona	387	1,004	159	16	130	142	9	6
Arkansas	221	594	169	51	96	99	3	49
California	540	1,058	96	10	137	121	-12	25
Colorado	386	972	152	20	119	125	5	18
Connecticut	392	1,013	158	15	93	114	23	30
Delaware	372	1,036	178	13	99	121	22	24
Florida	330	771	134	34	107	105	-2	43
Georgia	270	751	178	39	98	113	15	32
Hawaii	480	1,194	149	5	141	146	4	5
Idaho	328	767	134	36	126	113	-10	31
Illinois	373	998	168	17	94	112	19	35
Indiana	334	749	124	40	99	98	-1	50
Iowa	389	894	130	26	119	112	-6	36
Kansas	346	878	154	27	106	112	6	34
Kentucky	278	738	165	43	105	113	8	33
Louisiana	298	807	171	30	114	122	7	22
Maine	308	798	159	32	109	128	17	15
Maryland	411	1,054	156	11	110	126	15	17
Massachusetts	453	1,176	160	6	118	148	25	4
Michigan	428	1,050	145	12	117	124	6	19
Minnesota	406	1,096	170	8	123	140	14	7
Mississippi	242	636	163	49	117	116	-1	29
Missouri	301	726	141	44	93	99	6	48
Montana	351	900	156	24	120	134	12	10
Nebraska	362	896	148	25	113	119	5	27
Nevada	466	1,126	142	7	120	127	6	16
New Hampshire	299	722	141	45	94	100	6	45
New Jersey	406	1,067	163	9	103	122	18	21
New Mexico	324	830	156	28	121	129	7	13
New York	576	1,370	138	2	140	166	19	2
North Carolina	259	711	175	46	99	109	10	37
North Dakota	338	757	124	37	121	106	-12	41
Ohio	306	768	151	35	88	98	11	50
Oklahoma	287	753	162	38	102	106	4	42
Oregon	387	956	147	21	118	122	3	20
Pennsylvania	340	921	171	22	100	119	19	26
Rhode Island	379	975	157	19	106	130	23	12
South Carolina	225	679	202	47	95	109	15	38
South Dakota	353	740	110	42	123	108	-12	39
Tennessee	252	663	163	48	98	102	4	44
Texas	276	749	171	41	93	100	8	47
Utah	327	805	146	31	119	128	8	14
Vermont	384	905	136	23	129	140	9	8
Virginia	314	815	160	29	104	107	3	40
Washington	410	992	142	18	115	121	5	23
West Virginia	263	773	194	33	107	118	10	28
Wisconsin	439	1,021	133	14	131	137	5	9
Wyoming	414	1,291	212	4	132	159	20	3
District of Columbia	428	1,336	212	3	95	131	38	11

[a]Excludes unemployment compensation taxes.
Source: Bureau of the Census, U.S. Department of Commerce, and Tax Foundation computations.

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Budget Process Is Still Being Tested, TF Analysis Asserts

The jury is not yet in on the 1974 Congressional Budget Act, according to an analysis of the Act just published by the Tax Foundation. "The Congressional Budget Process at the Crossroads," written by Tax Foundation's budget specialist Maynard H. Waterfield, examines the operations of the agencies established by the 1974 Act—the Budget Committees and the Congressional Budget Office—and explores the strengths and weaknesses of the key elements of the budget process—the timetable, the budget resolutions, and the reconciliation process.

Such an analysis is cogent, Waterfield states, because "the confluence of record high inflation rates, public and political pressures for budget balance, and an economic downturn which may prove much more severe than predicted, is likely, over the coming months, not only to test the budget process severely but perhaps to determine whether or not it can survive as a viable budget tool for the Congress."

The Timetable

The timetable as a means of completing budget-related activities on schedule has not fared well, in Waterfield's eyes. "The timetable for budgetary actions," he notes, "has become almost more honored in the

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Tax Index Resumes Upward Climb After Slight Dip in 2nd Quarter

The Tax Index appears to have resumed its almost unmitigated sequence of advances, following a slight setback in the second quarter of 1980. Based on data which has just become available, Tax Foundation researchers calculate that the Tax Index in the third quarter of 1980 rose at an annual rate of almost 16 percent over the previous quarter.

In the second quarter of last year, the Index had declined at a yearly rate of about 5 percent, for its first quarterly slide since the 1973-75 recession. The second quarter's dip in the overall Index was a direct result of a shrinkage in corporate profits and the associated drop in tax accruals for both Uncle Sam and the state treasuries (see *Monthly Tax Features*, October 1980).

The Tax Index in third quarter, 1980, stood at 367.3 (1967 equals 100), up from 354.1 in the previous quarter. On a compounded annual rate basis, this was a hike of 15.8 percent for the quarter. At the same time, the annual rate of increase in nominal dollar gross national product was 10.8 percent, and in prices, 9.9 percent.

Although all major types of taxes moved up in the third quarter, the biggest increase was in corporate profits taxes. Annual rates of change in the separate taxes for the quarter were: corporate profits taxes, up 45

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Taxes, GNP, and Prices
Index Numbers,[a] 1967 = 100

Year and quarter		Tax Index	GNP Index[b]	Price Index[c]
1978	I	279.1	252.6	186.1
	II	295.3	264.2	190.9
	III	302.8	271.2	194.2
	IV	315.5	280.7	198.3
1979	I	322.3	287.8	202.8
	II	328.5	292.6	207.3
	III	340.3	301.0	211.6
	IV	351.7	308.5	215.9
1980	I[d]	359.6	316.6	220.8
	II[d]	354.1	316.6	226.5
	III[e]	367.3	324.8	231.9

[a]Quarterly, at seasonally adjusted annual rates.
[b]Gross national product in current dollars.
[c]Implicit price deflator for gross national product.
[d]Revised.
[e]Preliminary.
Source: U.S. Department of Commerce, Bureau of Economic Analysis; and Tax Foundation estimates and computations.

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The Front Burner

By Robert C. Brown
Executive Vice President
Tax Foundation, Inc.

"The Budget Cuts—Some Modest Proposals"

In the wake of an election so heavily influenced by economic issues, the Federal budget cuts must occupy a prominent place on the front burner of both the Reagan Administration and the 97th Congress. The Budget's size, its rate of growth, its delineation of national priorities—these and other issues must be dealt with.

At the risk of stating the obvious, it seems worthwhile to suggest a few guideposts for making the Budget a more effective tool of fiscal discipline and for bringing the Budget into balance as soon as possible:

- Any effective cuts will be painful. Our bloated public sector will not lose weight easily. Our decision-makers, with a degree of resolution and political courage not usually demanded of them, must ask their constituents—and all Americans—to swallow a bitter pill if they want to get well.
- Sound fiscal policy—not politics—must guide the selection of cuts. This means grappling with the so-called "uncontrollables," off-budget items and still other programs which, however popular with special interests, are leaching the health out of our economy.
- Cuts must be bipartisan. Republicans would like to start a "new era." Democrats would like to limit that "era" to the next four years. No matter. Getting a handle on the public sector and unleashing the inherent healthiness of the private sector must take priority over political strategy aimed at 1982 and 1984.
- Cuts must be swift. The honeymoon in Washington is always short. Our leaders must act while some ardor still remains. Early cuts, however painful, will be more readily accepted and will hasten the convalescence of the economy.
- Cuts must be fair. Vendettas have no place. Just as we must put a lid on the pork barrel, we must make sure that no group shoulders an unfair portion of the burden.
- Maintaining an orderly progression through the stages outlined in the 1974 Budget Act will convince the public that their leaders mean business. Submerging the timetable in partisan squabbles or pork-barrel politics will only intensify disillusionment and further destabilize the orderly conduct of the economy.

There is a saying in management: "Don't let the urgent cause you to lose sight of the important." There is urgent business on every desk in Congress as well as in the Oval Office. Putting out fires, however, must not obscure the awareness that our ultimate goal is to keep the house from collapsing.

Tax Index

(Continued from page 1)

percent; indirect business taxes (including the windfall excise tax on oil), up 20 percent; personal income taxes, up 12 percent; and social insurance taxes and contributions, up 7 percent.

In the year-over-year comparison, both the Tax Index and the GNP Index mirror to some extent the economic slowdown that began in January 1980, following the peak of the last economic expansion. Instead of rising within a range of 11.5 to 13 percent as in recent years, both index numbers rose by only 7.9 percent from the third quarter of 1979 to the same period in 1980. Apparently not so sensitive to the recession, the Price Index outperformed them both, rising by 9.6 percent for the year.

The Tax Index is a new fiscal yardstick unveiled in May 1980 by Tax Foundation economists. The Index is designed to provide a continuing measure of trends in taxes, on a basis comparable to official indexes for other segments of the economy. (For other perspectives on the Tax Index see *Monthly Tax Features*, May, August, and October 1980.)

Supply-Side Cuts To Spur Economy Urged by Rahn

Supply-side economics and its influence on future tax and fiscal policy furnished the theme for Richard W. Rahn's talk at Tax Foundation's 32nd National Conference. Rahn, Vice President and Chief Economist of the Economic Policy Division of the Chamber of Commerce of the United States, first discussed the nature of supply-side economics. He then described for the conference the role this concept played in the deliberations of the Tax Policy Task Force for the incoming Reagan Administration.

Incentives Needed

"Really, it's the economics of incentive," Rahn told the conference. "The question is," he said, "how do [people] achieve their particular needs?" Asserting that the incentive and reward structure in society motivates people, Rahn described the current scene in the U.S. as "having less work, more leisure, far less saving and investment, more consumption. The result of this, of course, has been a lower level of output."

"Now, if we look at our economic goals of essentially trying to increase real per capita income for all Americans," he asked, "how do we go about achieving that?"

Altering Behavior

Rahn saw the answer in focusing on the producers, "on what drives them, what motivates them, what their incentives are, or what the disincentives are. . . ." Asserting that a tax change is beneficial only if it alters behavior, Rahn favored a supply-side policy targeted on changing the work-leisure ratio and the savings-consumption ratio.

The "wedge—the wedge on capital, the wedge on labor—is a pivotal concept with supply-siders," Rahn said. He described how the "real cost" of hiring a $10-per-hour

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Budget at Crossroads

(Continued from page 1)

breach than in the observance." And, Congressional foot-dragging is endangering the whole process. "The failure of Congress over the last two years to adhere to the budget timetable," he writes, "has resulted in the resumption of the use of the 'continuing resolution' device, and raised new questions about the efficacy of the budget process."

The Budget Resolutions

On the other hand, in Waterfield's opinion, "the most important single element of the congressional budget process is the consideration and adoption of the budget resolutions required under the 1974 Act." At the same time, this important tool has serious limitations: the concurrent resolutions are binding only on the Congress, not on the President. Since the resolutions relate to funding bills to provide spending authority and not to actual annual outlay levels, "Congress can directly affect actual spending only over a period of years, not on a year-to-year basis." Finally, even though the second resolution is said to be "binding," the totals can be adjusted through the adoption of additional concurrent resolutions—a device which has been employed "in all but one or two years since the budget process was set in place."

However, Waterfield cautions, "To cite these limitations is not to denigrate the process, which can and does enable, even force, the Congress to view the budget as a whole, in a more orderly, coordinated way than existed prior to its adoption."

The Reconciliation Process

Under the reconciliation process, the 1974 Budget Act seeks to provide a vehicle through which the Budget Committees, by means of the budget resolutions, "may direct other committees to determine and recommend revenue and/or spending actions deemed necessary to conform to the determinations made in the budget resolution." The use of reconciliation in the fiscal 1981 budget did affect savings. Waterfield writes, "It is estimated that outlay savings resulting in the fiscal year 1981-85 period will total more than $50 billion, with $29 billion in additional revenues projected over the same period."

Reconciliation does pose some unresolved problems. It may be put into effect by either a concurrent resolution or a bill. A resolution does not require Presidential signature, and there is a question of how changes made in this way assume the force and effect of law. On the other hand, if reconciliation is put into effect through a bill, this must pass both Houses and be signed by the President. There is no precedent for predicting what would happen if either House voted down such a bill or the President vetoed it.

Another possibility is that reconciliation may bring about unwarranted spending increases that would not otherwise pass the congressional process.

Such questions, however, should not downplay "the possibility for good in the reconciliation procedure," notes Waterfield. This process has enabled the Congress to make "some significant changes in ongoing Federal programs—including some of the so-called uncontrollable entitlement programs—which might not otherwise have been made." These will bring about "substantial savings" in the future, according to Waterfield.

He also feels that, "properly used," the reconciliation procedure could be a vehicle for greater cooperation between Congress and the White House, by which "the entire process of budgeting and budget control might be strengthened."

Indeed, Waterfield claims, "If the congressional budget process adopted in 1974 is to prove effective over the long pull, some kind of cooperative, workable enforcement procedure is a necessity."

Asserting that "the budget process has not yet proven to be either a spectacular success or a dismal failure," Waterfield points out that its merits will ultimately be demonstrated by the "test of congressional performance." And, he concludes, "six years later, that testing continues."

"The Congressional Budget Process at the Crossroads" by Maynard H. Waterfield may be ordered from the Tax Foundation for $1 per copy.

McCracken Calls For New Policies To Curtail Inflation

"The United States economy traditionally has operated with a rate of inflation of about 2 percent per year," Paul W. McCracken of The University of Michigan's Graduate School of Business, told the Tax Foundation's 32nd National Conference on December 3. Excluding several "disturbed periods," McCracken, who is past Chairman of the President's Council of Economic Advisers, explained, "the crude, compounded rate of rise of the consumer price index beginning in 1900 and ending in 1965 is 2.1 percent."

Inflation/Employment

In fact, in two periods spanning the years from 1900 to World War I and 1948 to 1965, according to McCracken, the average rates of inflation were 1.7 percent and 1.8 percent, respectively. Using these data to establish an inflation rate of 2 percent per year as "a kind of par for the course," McCracken asserted, "There was no secular tendency, in other words, as we moved through the decades of the twentieth century for the rate of inflation to accelerate."

"There is another sub-period here that I can't refrain from commenting on," said McCracken. "From 1922 to 1929 the price level rose 0.3 percent a year. Real output rose at the average rate of 4.7 percent per year, and the unemployment rate averaged 3.7 percent."

A similar case can be made for the rate of employment, McCracken explained, arguing, "The United States has been much more nearly a full employment economy throughout its history than we perhaps have given it credit for." He estimated the rate for unemployment from 1900 to 1965 at 4.7 percent, excluding "the patho-

(Continued on page 4)

McCracken

(Continued from page 3)

formance has deteriorated not only relative to our history but relative to the industrial world as a whole."

The economist from the University of Michigan then proceeded to identify a few key factors which helped to explain the problem.

- "The United States did become a seriously underinvesting economy during the 1970s by any kind of measure. . . . Somehow or other the rate at which new technology was being generated was slowing down. . . . If we have been generating technology more slowly and because of sluggish investment introducing it into the economy more slowly, then our economic processes inevitably are reflecting aging technology."

- "We are going to have to learn to manage basic so-called demand policies along a steadier and more moderate course. . . . In the area of monetary policy, somehow or other, we have to get on a steadier course."

- "Obviously we have to reorient policies in the direction of regaining our position as a high-investment economy. . . . The major direct efforts have to be in the area of tax policy."

- "It's very important at this juncture for the American economy to remain an open economy vis-a-vis the rest of the world. We must support a liberal multilateralized open kind of international trading and financial system. The great danger is that, just at the time when the United States is beginning to demonstrate its capability to participate more effectively in the world market, we are apt to turn in a protectionist direction."

- "The one thing we don't need in our concern about reindustrialization is some kind of master plan or master planning agency from government. . . . We don't want to have government arrogating too much direct responsibility for managing economic life. It's much better to do it by the liberal market-organized strategy for economic policy."

McCracken concluded his remarks by noting, "We have gotten into this economic wilderness because of the economic policies we have pursued. If we are going to get out, it will be because of the economic policies that we pursue, and they will have to be different from those of the past."

"Obviously, we have not done so well recently," McCracken conceded. Noting that the same may be said for "the industrial world generally," he emphasized, "our own per-

logical years of the Great Depression and, of course, also World War II."

Now Available

"The Congressional Budget Process at the Crossroads" by Maynard H. Waterfield, (Special Report), January 1981, 14 pages, $1.00.

"Reducing Government Expenditures: Overcoming the **Obstacles" by Richard A. Givens, Government Finance Brief No. 30, 14 pages, $1.00.**

"The Tax Expenditure Budget: An Exercise in Fiscal Impressionism" by Richard E. Wagner, Government Finance Brief No. 29, 21 pages, $2.50.

"Federal Employee Retirement Systems," Research Publication No. 34, 57 pages, $3.00.

"A Value-Added Tax for the **United States? Selected Viewpoints." (Special Report 3,) 19 pages, $2.00.**

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Supply-Side Cuts

(Continued from page 2)

worker, after social security taxes, workmen's comp, unemployment comp, and so forth, may actually be $12 an hour. At the same time, the employee—after social security taxes, income taxes, and so forth—is "lucky" to be making $8 an hour. "So we really have government-induced unemployment," he asserted, "every time we increase the taxes on work."

Drawing examples from areas as diverse as New York City, the District of Columbia, and variations in the tax treatment of overseas earnings, Rahn faulted the Carter Administration for never really learning "the lessons of supply-side economics." His participation with the Reagan Tax Policy Task Force has convinced Rahn that the incoming Administration "has a very different perspective. . . . They realized the importance of the marginal tax reduction in terms of changes in behavior towards work, saving, and investment."

The main problem encountered by the Task Force, according to Rahn, was setting priorities among the many options available. "The highest priority, of course," he said, "is Kemp-Roth—a 10 percent across-the-board cut for each of three years for a total of 30 percent."

The second priority "was the Jones-Conable capital cost recovery proposal, also known as 10-5-3. The third highest priority was the reduction in the capital gains rate to a rate no higher than 20 percent both for individuals and for corporations."

Rahn attacked as "a great myth" the belief that "all tax cuts are inflationary," asserting that a supply-side tax cut can be neutral or even "deflationary."

Capping his remarks with an economic forecast, Rahn predicted, "The next few months, I think, are going to be dismal." By mid-1981, "If we get the type of tax cut that I've described or something very close to it," he said, "I think the recovery can begin, slowly gaining momentum."

Rahn foresaw "substantial gains in real income" and "inflation coming under control" by 1982.

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Benefits to 35 Million Families Exceed Total Taxes They Pay

Government taxing and spending operations, taken in tandem, result in a definite redistribution of income in favor of low-income families, according to a new Tax Foundation study. Some 35 million families—those comprising the lower half of the income distribution—receive more in government benefits than they pay in taxes. In 1972-73, these families earned up to $10,000 a year.

In fact, the lower the income, the more favorable the tilt of government fiscal operations. Families in the lowest income bracket received government benefits equal to 3.3 times their tax burdens. Families earning from $10,000 to $12,000—about 9 percent of the population—just about broke even. The 42 percent of all family units earning above $12,000 in 1973—nearly 30 million families—paid more in taxes than they derived in benefits from all levels of government. Those families in the highest bracket—over $25,000—have tax burdens nearly twice (1.9 times) the benefits coming to them through government expenditures.

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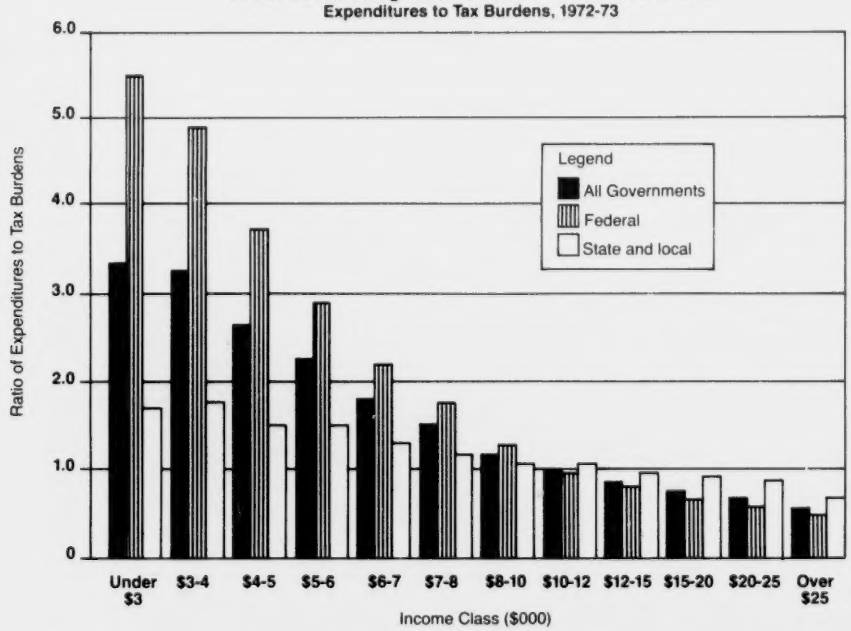
Redistribution through Public Finance—Ratio of Government Expenditures to Tax Burdens, 1972-73



Most Taxpayers Carry Proportional Burden, TF Research Reveals

Who pays the taxes? Just about everybody pays a proportional share of the cost of running government, according to Tax Foundation researchers. The percentage of income paid in taxes is approximately the same throughout the income range which includes three-fourths of all families. Those families with incomes between $4,000 and $25,000 (1972-73 levels) pay just over a third of their income in Federal, state, and local taxes.

This overall proportionality exists notwithstanding variations in individual types of taxes and in Federal and state/local tax structures generally, say Tax Foundation economists.

Federal Taxes

The moderately progressive tax structure which prevails at the Federal level is due largely to the role played by the individual income tax in the overall tax structure. As a share of total income, as defined in the study, this tax ranged from 2.4 percent in the lowest brackets to more than 12 percent in the highest.

Corporate income taxes, when allocated according to the assumptions used in the study (one-half of the tax falls on stockholders, one-half is shifted forward in higher consumer prices), are generally regressive over the first nine income classes (up to $15,000) and proportional for family

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The Front Burner

By Robert C. Brown
Executive Vice President
Tax Foundation, Inc.

"The Whole Is Equal to the Sum of Its Parts"

The late G. K. Chesterton once said, "Orthodoxy is my doxy. Heterodoxy—or heresy—is the other fellow's doxy." The same can be said with regard to past approaches to cuts in taxing and spending.

"My" tax reform is one that takes the other fellow's break without altering the deductions in my form 1040. "My" spending reduction is one that gives the other fellow less from the public coffers without diminishing the benefits that flow to me. That brand of thinking is one of the things that has helped to get us into the current economic mess.

However, if the American voters sent any message to our national leadership last fall, it was that business as usual is no longer acceptable. Radical overhaul—in the fundamental sense of going to the root of the problem—is what the voters mandated. If the present leadership team fails to deliver, the experience of 1980 leads us to believe that 1982 and 1984 will see more clean sweeps and fresh teams on the field. But by then, the game may already have been lost.

The basic goal to keep in mind in tackling Federal tax and fiscal problems is highlighted by Tax Foundation's study on tax burdens and government benefits to which this issue of *Monthly Tax Features* is devoted. The mechanism which takes private income and redistributes it through the public sector is about to face some major changes, which will inevitably be phased in over several years.

We must increase the wealth—the capital base—of the economy so that the pie will grow larger and eventually allow a larger share for all Americans. Where spending programs—many of them now indexed to inflation and set up as entitlements not accessible to easy restructuring—have become part of the problem and not part of the solution, there must be major surgery. But it is surgery that is called for, not butchering.

Overall, the taxing/spending system must be kept in balance. All the parts of public policy must be carefully articulated (and that includes monetary policy and the regulatory burden as well). Politics is the art of the possible, and the ultimate solution to emerge—one hopes well before this calendar year ends—will be based on a consensus between the Administration and the Congress and between the two major political parties and their leadership.

We urge that they remember, as they reach this consensus, that all parts of this great whole which is the United States be treated fairly. For under our form of government, the whole, indeed, is only as great as the sum of the parts.

Most Taxpayers

(Continued from page 1)

incomes between $15,000 and $25,000. Above this level, the ratio of corporate income tax burdens again rises sharply due to the high level of dividend income. Excise taxes and customs, the burden of which is assumed to fall on consumers, are substantially regressive for earners at all levels.

Social insurance taxes, Foundation economists find, are roughly proportional from the second ($3,000-$3,999) through the seventh ($8,000-$9,999) money income groups—with some slight progressivity. These taxes are regressive throughout the rest of the income spectrum. The study attributes this to the partial balancing of the incidence of the employee and employer shares of these taxes. The employee share is assumed to fall on the worker. Because of the growing importance of the number of earners (and of wage income) as total incomes rise, social insurance taxes are progressive in the lower- and middle-income ranges, but workers at the highest end of the scale carry a very large share of the burden. Since, under the standard assumptions, the employer's share of social insurance taxes falls on consumers in the form of higher prices, the burden of the employer tax is regressive throughout the entire income range.

State/Local Taxes

Only the individual income tax is significantly progressive in the overall state and local tax system. And this progressivity is overwhelmed by the regressivity of sales and property taxes, which make up the bulk of state and local taxes.

Tax burdens at this level are significantly larger than Federal tax burdens for families in the three lowest income brackets. In contrast, for top earners, state and local taxes are less than half as large as Federal taxes.

Tax Foundation economists point out that this pattern inevitably follows from the study's assumption that the incidence of most state and local taxes falls on consumers, coupled with the fact that consumption as a proportion of income rises as income falls. For families in the lowest income bracket, for example, consumption expenditures exceed money income by a sizable amount.

See the accompanying table for a breakdown of Federal and state/local tax burdens as a percentage of total income by money income class.

Tax Burdens as a Percent of Total Income[a] by Money Income Class, 1972-73

Money income class (000)	Total	Federal	State and local
Under $3	49.8	21.2	28.6
$3 - $4	35.9	16.8	19.1
$4 - $5	34.1	16.9	17.2
$5 - $6	33.5	17.5	16.0
$6 - $7	34.4	18.7	15.7
$7 - $8	33.5	18.6	14.9
$8 - $10	34.8	20.4	14.4
$10 - $12	34.5	20.9	13.7
$12 - $15	33.6	20.9	12.7
$15 - $20	33.5	21.3	12.2
$20 - $25	33.0	21.5	11.6
Over $25	35.8	24.9	10.9
Total: All classes	34.5	21.5	13.0

[a] Net national product basis.

Government Aid

(Continued from page 1)

While the pattern of income redistribution holds at all levels, the extent of redistribution is far greater at the Federal level than for state and local governments combined. The ratio of benefits to tax burdens for Federal activities ranges from 5.5 in the lowest income group to 0.5 in the highest. Corresponding ratios for state and local governments are 1.6 and 0.7, respectively.

The Tax Foundation analysis points out that the redistribution pattern prevails both for those expenditures (and associated tax burdens) which can be closely linked to specific groups of beneficiaries, and for the more general expenditure benefits (national defense, cost of operating the Federal government, etc.) which cannot be imputed to particular individuals or groups.

When considered alone, social insurance programs (OASDHI, unemployment compensation, and retirement benefits for Federal, state, and local employees) are more redistributive of income (measured by the ratio of benefits to expenditures) than the other expenditures. For the lowest income classes, benefits are five times the tax burden; and for the highest income classes, taxes are three times the benefits received.

Taking into account all levels of government, the tax burden is "roughly proportional," the study indicates, exacting about the same share of income for all income brackets. On the other hand, government spending patterns favor lower income earners. Sector by sector, the pattern shifts somewhat. Federal taxes tend to be "somewhat progressive," Tax Foundation research indicates, while Federal spending favors lower income groups. This combination of tax and spending policy produces a high degree of redistribution of income, according to the report.

State and local governments tend to be "somewhat regressive" in tax policies, and the spending benefits of state/local government units are not so sharply oriented toward the poor, according to Foundation economists.

High Earners Get Fewer Benefits For Federal, State/Local Taxes

As incomes rise, government spending benefits per dollar of income fall—and this pattern holds true for almost every category of spending. Simply put, that is what Tax Foundation economists found when they examined the pattern of benefits received from government expenditures compared to taxes paid and levels of income.

For example, for every $100 of total income received by the lowest income group studied, government expenditure benefits totaled $162 (1972-73 levels). Government benefits, in fact, exceeded total income for families with money incomes below $4,000. At the high end of the income scale—where family incomes exceed $25,000—government spending benefits come to only about $19 per $100 of income.

On the whole, spending by the Federal government favors lower income groups more than state/local spending does. In 1972-73, Federal expenditures were approximately 122 percent of income for the lowest income group and only 12.6 percent for those at the highest income level. In other words, Federal government benefits as a percentage of total income were nearly ten times as great for families with money incomes under $3,000 as for families with money incomes over $25,000.

At the state and local levels, benefits ranged from 40.4 percent of income for the lowest earners to 6.8 percent for the highest, a ratio of about six to one.

Another way in which Tax Foundation economists express the breakdown of benefits derived through government spending is as follows: For the lowest income class, three-fourths of the total benefits derived from government expenditures were from Federal programs and one-fourth from state and local programs; for those at the upper end of the scale, the proportion was approximately two-thirds and one-third, respectively.

Details on benefits are given in the table below.

Benefits of Government Expenditures as a Percent of Total Income[a] by Money Income Class, 1972-73

Money income class (000)	Total	Federal	State and local
Under $3	162.4	122.0	40.4
$3 - $4	114.1	86.2	27.9
$4 - $5	88.0	65.9	22.1
$5 - $6	74.3	53.3	21.0
$6 - $7	61.2	43.1	18.0
$7 - $8	50.2	34.2	16.0
$8 - $10	41.2	27.1	14.2
$10 - $12	33.8	20.7	13.1
$12 - $15	28.8	17.6	11.2
$15 - $20	25.0	15.0	10.0
$20 - $25	22.4	13.1	9.3
Over $25	19.4	12.6	6.8
Total: All classes	34.4	22.6	11.8

[a] Net national product basis.

The new study, "Allocating Tax Burdens and Government Benefits by Income Class, 1972-73 and 1977," is based on the latest comprehensive nationwide survey of consumer income and expenditures issued by the Bureau of Labor Statistics. It devel-

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Tax Burdens and Benefits of Government Expenditures at Different Income Levels, 1972-73

Total income level[a]	Total tax burden	Total value of benefits
$ 2,400	$ 1,193	$3,894
4,700	1,690	5,366
6,000	2,049	5,286
7,300	2,453	5,437
8,600	2,964	5,272
9,900	3,306	4,948
11,800	4,123	4,879
14,400	4,969	4,864
17,700	5,946	5,099
22,800	7,618	5,693
29,200	9,655	6,553
50,200	17,965	9,760
15,800 (average)	5,466	5,499

[a] Total income as defined in study: includes money income, plus income in kind, and other non-money income included in net national product.

Government Aid

(Continued from page 3)

ops estimates of tax burdens and the benefits of government expenditures for families grouped according to the size of their income.

The study also examines how taxes paid and government benefits received by persons in different income groups compare with their incomes. While the emphasis is on the years 1972-73, the year to which the Bureau of Labor Statistics data apply, estimates are also provided for 1977. The Foundation's economists caution, however, that the data for 1977 "should be regarded as provisional, since they are not adjusted for upward shifts in the distribution of income and associated consumption patterns since 1972-73."

The table at the top of this page shows the dollar value of tax burdens and benefits of government expenditures for selected income levels for 1972-73. The table which appears below gives the ratio of government expenditures to tax burdens by income class for the same period.

Copies of "Allocating Tax Burdens and Government Benefits by Income Class, 1972-73 and 1977" are available from the Tax Foundation for $2.50.

Tax Policy and R&D Subject of TF Seminar

Senator John C. Danforth will speak on the impact of tax policy on research and development at a seminar to be held by the Tax Foundation on March 25, 1980 at the International Club of Washington, D.C. Danforth, U.S. Senator from Missouri and member of the Senate Finance Committee, will address the noon luncheon which concludes the seminar.

"Tax Policy and R&D" will be examined in depth during the morning sessions, which will be moderated by Thomas P. Maletta, Vice President-Taxes, Allegheny Ludlum Industries, Inc. The first portion of the seminar will be addressed to "Economic Overview—R&D and Economic Performance."

The second session will examine "Tax Policy and R&D—Incentives, Disincentives, and Definitions."

For further information, contact the Office of Tax Policy at the Tax Foundation.

Now Available

"The Congressional Budget Process at the Crossroads" by Maynard H. Waterfield, (Special Report), January 1981, 14 pages, $1.00.

Redistribution of Income Through Public Finance by Income Class, 1972-73

Money income class (000)	Ratio of government expenditures to tax burdens[a] All governments	Federal	State and local	Exhibit: Social insurance benefits/social insurance taxes[b]
Under $3	3.3	5.5	1.6	5.0
$3 - $4	3.2	4.9	1.6	5.2
$4 - $5	2.6	3.7	1.4	4.2
$5 - $6	2.2	2.9	1.4	3.5
$6 - $7	1.8	2.2	1.3	2.6
$7 - $8	1.5	1.8	1.2	1.8
$8 - $10	1.2	1.3	1.1	1.3
$10 - $12	1.0	.9	1.1	.7
$12 - $15	.9	.8	1.0	.6
$15 - $20	.8	.7	.9	.4
$20 - $25	.7	.6	.9	.3
Over $25	.5	.5	.7	.3
Total: All classes	1.0	1.0	1.0	1.0

[a] Based on standard assumptions used in study.
[b] All governments.

About Tax Features

Tax Foundation, Inc., is a publicly supported, non-profit organization engaged in non-partisan research and public education on the fiscal and management aspects of government. Members of Tax Foundation are urged to pass their copies of *Tax Features* along to editors of their house publications.

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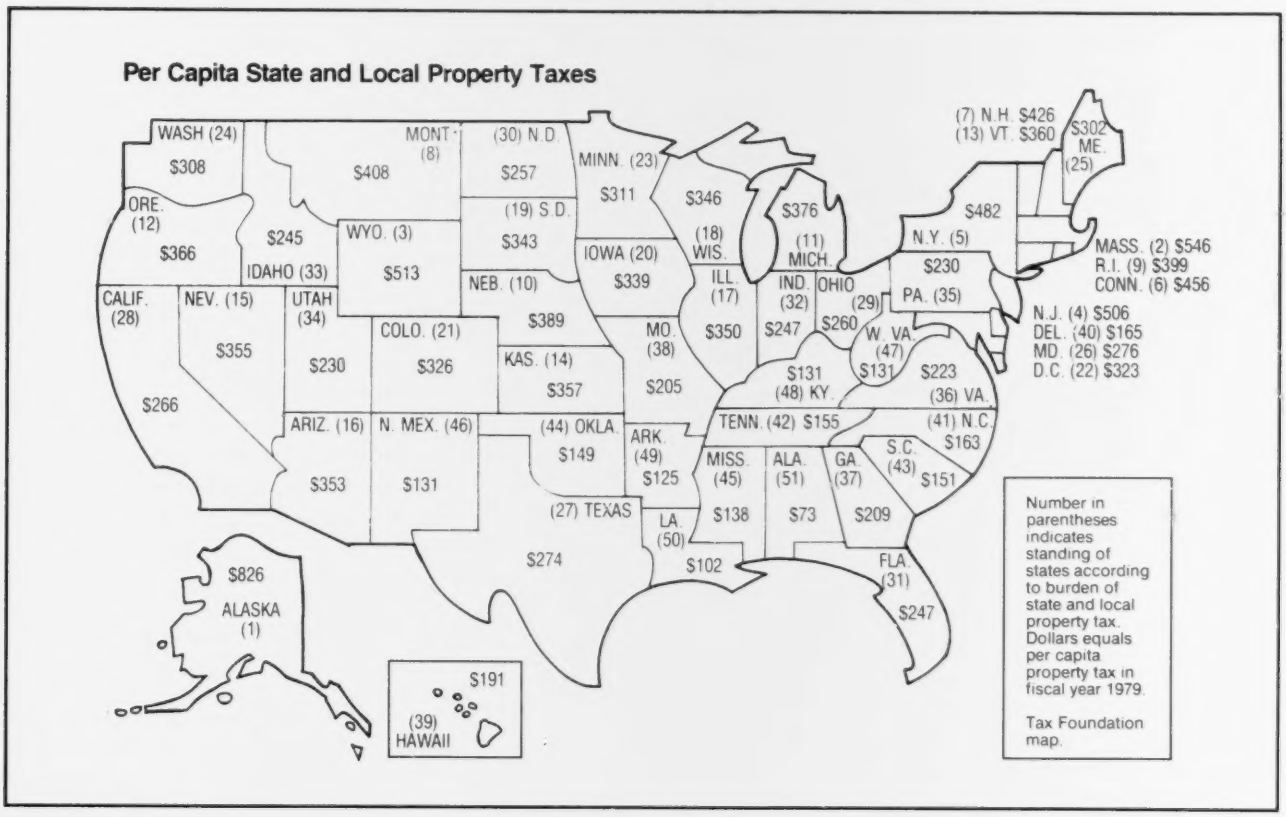

Property Taxes Show First Decline Since World War II; Most of Drop Occurs in California Following "Prop 13"

Growth in property taxes temporarily halted in 1979, according to Tax Foundation economists, as total collections in the United States dropped from $66.4 billion to $64.9 billion. This 2.2 percent decline marked the first reduction in state and local property tax collections since World War II. (Local taxes comprise 96 percent of all property taxes.) Researchers at the Foundation attribute the 1978 to 1979 drop almost entirely to the impact of Proposition 13 in California, where property tax collections fell by nearly $5.0 billion, or 45.1 percent. Property tax collections were up in every other state except Maryland, where they dropped by a modest $18.4 million, or 1.6 percent.

Total U.S. collections, excluding California, rose from $283 per capita in 1978 to $298 in 1979—an increase of 5.5 percent.

The highest per capita levels recorded in 1979, next to Alaska's leading $826, were in Massachusetts ($546), Wyoming ($513), New Jersey ($506), New York ($482), and Connecticut ($456). These compared to

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The Front Burner

By Robert C. Brown
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"Some Thoughts on Buzz Words"

Buzz words fill an important function in communication. They provide a conceptual shorthand, whereby paragraphs of meaning can be conveyed by a single term. They also carry an enormous amount of emotional freight relative to their size.

There are, however, dangers in buzz words. Like campaign slogans and ideological wall posters, they oversimplify the issues. In time, they distort or even replace the legitimate concepts for which they once stood.

Also, because of the heavy emotional charge they bear, buzz words frequently end up generating more heat than light in the public debate. They become barriers, rather than conduits, to effective communication.

This is where we find ourselves as the Administration's tax reduction and spending restraint program begins its journey through Congress. The sweeping nature of the overhaul proposed for taxing and spending policy has encompassed just about everyone's favorite cause. Buzz words are going off like alarms during a fire drill: poverty, hunger, national defense, public health, the aged, free trade.

Every buzz word describes a legitimate concern of our society. Every buzz word also represents a "cause" which has now acquired a constituency of its own. In Washington, the tail often ends up wagging the dog, and the goal becomes more money, more staff, more clients—well beyond the level needed or intended when a given program was established. Members of Congress and professional bureaucrats have built entire careers around a single government-funded program. Special interest groups have achieved a momentum which often transcends the legitimate viewpoint which inspired their formation, so that the goal becomes to perpetuate the interest group rather than to fulfill its original mission. Clients—whether they be the so-called "Beltway Bandits" or food stamp recipients—have planned their lives around "business as usual," and then some.

That cries of outrage are coming from almost the entire spectrum of these interest groups lends credence to the thought that the Administration just may have done the job right. But the strong beginning will die aborning unless the decision makers—and the general public upon whose support they rely—learn to see beyond the buzz words to the issues they obscure.

Part of effective leadership is accurate and timely communication. In the weeks and months to come, some people in the public eye—among them, legislators, representatives of interest groups, members of the business community—will fight, with a barrage of buzz words, the effort to slow the growth of spending and cut taxes. We can only hope that others will be equally vigorous in insisting that the debate be conducted on the issues and that every group in our society accept its fair share of the burden of restructuring Federal taxing and spending policy.

TF President Roderick Backs Cuts; Calls for Investment Incentives

David M. Roderick, President of the Tax Foundation's Board of Trustees, testified before the House Budget Committee on February 25 on the Reagan Administration's spending and tax reduction package. Roderick, Chairman and Chief Executive Officer of United States Steel Corporation, urged that "the spending and the tax cuts move along parallel tracks." "It is absolutely necessary for the people to perceive in this country that we are really looking at both sides of that problem," he told the Committee.

Roderick spent the entire morning before the Committee, which is chaired by Representative Jim Jones (D-Okla.), delivering a prepared statement and responding to questions from Committee members. He explained that he was speaking both as Chairman of U.S. Steel and "as a citizen deeply concerned about the extremely weak and deteriorating condition of our nation's overall economy."

In his testimony Roderick described an economic climate in which corporations "are forced to do business amid great inflationary pressures and with interest rates which are simply not affordable either privately or from a corporate point of view." He said that this climate was hobbling industry's ability to use "the resources of labor and capital to achieve desperately needed increases in productivity."

Pointing out that "increases in capital investment and worker efficiency go hand in hand," Roderick told the Committee, "we will not get inflation under control until our industrial productivity increases significantly."

"The expenditure restraints which have been proposed," Roderick said, appear to be "achievable and . . . equitably distributed among the var-

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About Tax Features

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TF Trustee Calls Economic Climate "Out of Control"

Roland M. Bixler, Trustee of the Tax Foundation, testified before Congressman Jim Jones's (D-Okla.) House Budget Committee on February 24. In his prepared remarks, Bixler explained that he was appearing as President of J-B-T Instruments, Inc., an independent small manufacturer of electronic components headquartered in New Haven, Connecticut.

"Small and moderate size businesses," Bixler told the Committee, "have an obvious great stake in the success of the program to revitalize our economy and in the budget process, which carries such a large burden in implementing that program." He stressed that "there is no single problem facing the business community, small or large, more serious than the out-of-control economic climate in which we do business." This climate, he said, hindered businesses from raising equity capital and employing labor and capital effectively.

Many small businesses, Bixler explained, "have a variety of investment projects that they would very much like to move forward on, but simply cannot justify on the basis of prospective returns on investment in today's inflationary environment and the accompanying interest rates."

Bixler told the Committee that he viewed "the opportunity to change our economic direction now as perhaps the 'last, best chance' for a revitalization of industry under market guidelines rather than government-imposed standards." Conceding that certain cuts would hurt the small businessman, Bixler said, "I think we have to step up to bat along with all the other sectors of the economy."

"The depreciation reform incorporating the bulk of the 10-5-3 legislation obviously would be of substantial benefit in modernizing our cost-recovery system and speeding productive capital investment," he said. Individual rate reduction would "both encourage savings and work incentives and also offer some relief from the inflation tax penalty," he noted, pointing out that "significant rate relief is long overdue."

Bixler also cautioned against adding "other tax provisions, as attractive as they may be," onto the program. "The tax program should be kept as clean as possible in order to get on with it early in this session."

Property Taxes

(Continued from page 1)

the U.S. average level of $295 per capita (including California).

The states with lowest per capita collections were Alabama ($73), Louisiana ($102), Arkansas ($125), Kentucky ($131), West Virginia ($131), and New Mexico ($131).

The total dollar amount of state and local property taxes more than doubled from 1969 to 1979, rising 111.7 percent over the decade. During the same period, population rose by a scant 9.0 percent. On a per capita basis, property taxes were up 94.2 percent for the decade.

The highest rate of growth in per capita property taxes for the ten-year period occurred in Alaska, where collections increased 696 percent.

States following Alaska in highest growth were Virginia (170 percent), Wyoming (162 percent), Georgia (156 percent), and Rhode Island (154 percent).

For the year 1979 there was a marked acceleration in property tax collections in several states. Idaho's per capita collections grew by 14.0 percent from 1978 to 1979, compared to an average annual growth of 6.1 percent over the period 1968-1978. Delaware collections per capita rose by 13.0 percent in 1979 (up from a 7.2 percent rate); Nevada by 11.9 percent (up from 5.8 percent); Utah by 11.7 percent (up from 5.2 percent); Nebraska by 11.1 percent (up from 6.5 percent); and Oklahoma by 11.1 percent (up from 4.7 percent).

Despite a doubling of the property tax bill in the 1970s, property tax collections were outpaced by personal income growth, Tax Foundation economists report. Per dollar of personal income, property taxes declined by 15 percent over the 1969-1979 period. A total of 40 states, including the District of Columbia, showed decreases in property taxes relative to personal income in the past decade.

The highest property taxes in 1979, per $1,000 of personal income, were paid in Alaska ($76), Massachusetts ($69), Wyoming ($63), Montana ($61), New Hampshire ($59), and New York ($58). The average nationwide in 1979 was $38 per $1,000 of personal income, compared to $45 in 1969.

Relative to personal income, the greatest property tax reductions in the 1969-1979 decade were in California (down 52 percent, from $63 to $30 per $1,000); North Dakota (38 percent, from $59 to $36); Indiana (34

(Continued on page 4)

Property Tax Trends—All States

Fiscal Years 1969-1979

Year	Total collections (billions)	Per capita	Per $1,000 of personal income	Percent of state and local tax collections
1968	$27.7	$139	$44	41.1
1969	30.7	152	45	40.0
1970	34.1	168	46	39.2
1971	37.9	184	47	39.9
1972	42.9	206	50	39.1
1973	45.3	216	48	37.4
1974	47.7	226	45	36.5
1975	51.5	242	45	36.4
1976	57.0	266	45	36.3
1977	62.5	289	46	35.5
1978	66.4	305	44	34.3
1979	64.9	295	38	31.6

Source: Bureau of the Census, Department of Commerce, and Tax Foundation computations.

Roderick

(Continued from page 2)

ious sectors of the population." Recognizing that the "dollar amounts involved seem staggering," Roderick emphasized that, "large as they may seem, these are reductions in the growth of spending, not cuts in current expenditures."

Roderick also backed the Administration's effort to recover "clearly allocable costs from users," noting that user fees for waterways would cost his own firm "several millions by 1983." In order "to get this nation moving again," he told the Committee, "we willingly accept our share of this effort." He said that he views this and other costs which would be incurred by U.S. Steel as "necessary sacrifices which we and others must make to get government spending under control."

Roderick backed cuts in "politically popular, but unproductive, job programs," as well as tightening up on "credit available through the Export-Import Bank even though this could to some extent hamper the business sector's ability to export." Recognizing that "virtually every dollar spent by the Federal government has its own constituency," Roderick cautioned, "it is for the Congress, specifically the spending and budget committees of both Houses, to stand firm."

The Administration's tax cuts, Roderick said, would "significantly assist the business community to do its part in achieving the goal of reindustrializing America." He called the 10-5-3 capital cost recovery concept "more necessary now than ever," explaining that this reform "will help us streamline our cost recovery system and, most importantly, speed up capital investment in new productive facilities." He also called for cuts in the individual tax rates to lessen the impact of inflation on individual taxpayers.

Roderick also argued for regulatory reform, pointing out to the Committee, "we are drowning in a sea of red tape brought about by overregulation."

Property Taxes

(Continued from page 3)

percent, from $49 to $32); Louisiana (33 percent, from $23 to $15); and Oklahoma (33 percent, from $31 to $21).

Taxpayers could take small consolation from relief on the property tax front, as other state and local taxes more than tripled, rising 180 percent per capita in the decade. Property taxes accounted for 40 percent of the $380 paid in state and local taxes per capita in 1969, but covered only 32 percent of the $934 paid per capita in 1979.

The accompanying tables provide details on state-by-state property tax collections in 1969 and 1979, as well as on overall trends in the interim years.

Property Tax Collections by State

Per Capita and Per $1,000 of Personal Income

Fiscal Years 1969 and 1979

State	Per capita property tax: Amount 1969	Amount 1979	Percent increase	Rank 1979	Property tax per $1,000 of personal income: Amount 1969	Amount 1979	Percent change	Rank 1979
U.S. AVERAGE	$152	$295	94	—	$45	$38	−15	—
Alabama	36	73	100	51	15	12	−24	51
Alaska	104	826	696	1	26	76	+195	1
Arizona	155	353	128	16	52	50	−4	13
Arkansas	58	125	115	49	25	21	−17	45
California	249	266	7	28	63	30	−52	35
Colorado	171	326	91	21	53	42	−20	20
Connecticut	210	456	117	6	50	51	+3	11
Delaware	77	165	116	40	20	19	−5	49
Florida	114	247	117	31	37	34	−9	29
Georgia	82	209	156	37	30	31	+5	34
Hawaii	87	191	118	39	26	23	−9	43
Idaho	117	245	110	33	45	36	−19	28
Illinois	173	350	102	17	44	39	−10	23
Indiana	165	247	49	32	49	32	−34	32
Iowa	177	339	91	20	54	42	−22	19
Kansas	179	357	99	14	55	46	−17	17
Kentucky	64	131	103	48	24	20	−18	47
Louisiana	60	102	68	50	23	15	−33	50
Maine	149	302	103	25	53	48	−9	14
Maryland	145	276	90	26	39	33	−15	31
Massachusetts	225	546	143	2	59	69	+17	2
Michigan	165	376	127	11	45	44	−2	18
Minnesota	156	311	99	23	47	40	−16	22
Mississippi	60	138	130	45	29	25	−13	39
Missouri	122	205	68	38	38	28	−25	38
Montana	194	408	110	8	66	61	−8	4
Nebraska	201	389	93	10	63	52	−18	10
Nevada	165	355	115	15	42	40	−6	21
New Hampshire	185	426	129	7	58	59	+1	5
New Jersey	227	506	123	4	58	58	(*)	7
New Mexico	77	131	71	46	29	20	−28	46
New York	211	482	128	5	52	58	+13	6
North Carolina	68	163	140	41	26	25	−4	40
North Dakota	163	257	58	30	59	36	−38	27
Ohio	146	260	78	29	42	33	−22	30
Oklahoma	89	149	68	44	31	21	−33	44
Oregon	181	366	102	12	55	47	−16	15
Pennsylvania	106	230	117	35	31	30	−5	36
Rhode Island	157	399	154	9	44	53	+20	9
South Carolina	49	151	205	43	21	24	+15	41
South Dakota	204	343	68	19	71	50	−30	12
Tennessee	68	155	127	42	27	24	−10	42
Texas	118	274	131	27	40	36	−9	26
Utah	130	230	77	34	47	37	−22	25
Vermont	151	360	139	13	51	56	+9	8
Virginia	83	223	170	36	27	29	+7	37
Washington	135	308	128	24	38	38	−1	24
West Virginia	64	131	105	47	26	20	−23	48
Wisconsin	193	346	79	18	58	46	−19	16
Wyoming	196	513	162	3	62	63	+1	3
District of Columbia	151	323	115	22	34	32	−6	33

(*) Decrease of less than 0.5%.

Source: Bureau of the Census, Department of Commerce, and Tax Foundation computations.

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MONTHLY TAX FEATURES

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Tax Foundation, Inc.

1875 Connecticut Ave., N.W. ☐ Washington, D.C. 20009 ☐ 202-328-4500 ☐

May 10 is Tax Freedom Day

May 10 is Tax Freedom Day this year, according to economists at the Tax Foundation, six days later than the revised date for 1980.

Each year, the Foundation calculates how long the average worker would have to labor to finish paying all taxes—Federal, state, and local—if every dollar earned from January 1 went directly to satisfy tax obligations to all units of government. Over the years, the trend has been that the American worker must spend more and more time on the job, just to keep the tax collector happy.

Year	Tax Freedom Day[a]
1930	February 14
1940	March 9
1950	April 4
1960	April 18
1970	April 28
1975	April 29
1976	May 2
1977	May 3
1978	May 3
1979	May 4
1980	May 4[b]
1981	May 10[c]

[a] Recalculated for all years to reflect recent revisions in national income and product accounts by U.S. Department of Commerce.
[b] Revised.
[c] Forecast.

Tax Freedom Day originated in 1948, when Dallas L. Hostetler, a Florida businessman, conceived the idea of a national tax freedom holiday. Then, as now, the day represented the first day of the year when the American taxpayers started working for themselves, instead of for the funding of Federal, state, or local government activities.

The idea caught on. In 1950 the U.S. Senate and House of Representatives passed a Concurrent Resolution which concluded, "Tax Freedom Holiday (may) be symbolized as a day of relief throughout the land, with such demonstrations as may seem appropriate, including prayer for deliverance." The Freedoms Foundation bestowed its George Washington Honor Medal Award on Hostetler in 1953.

In 1974, Hostetler asked the Tax Foundation to carry on his efforts to maintain public awareness of the ever-expanding tax burden. "At age 72," he wrote, "I must forego the an-

(Continued on page 4)

Federal, State, and Local Taxes Take 2 Hours 49 Minutes of 8-Hour Day

More of the average American's 8-hour workday is spent earning money to pay Federal, state, and local taxes, than for any other item in the family budget, according to Tax Foundation economists. This year, that worker will spend 2 hours and 49 minutes on the job to meet tax obligations to some level of government.

Working for the tax collector claims 1 hour and 21 minutes more time on the job than any other expenditure made by the average American family. Federal taxes will claim, in calendar 1981, 1 hour and 56 minutes of that 8-hour day, while state and local government units will receive 53 minutes' worth of earnings.

The next largest item in the household budget—housing and household operation—claims 1 hour and 28 minutes' worth of earnings, while food and beverages can be paid for by 1 hour and 4 minutes' labor. The remaining major family expenditures break down as follows:

Tax Bite in the 8-Hour Day
1981

Item	Hours and Minutes
Tax, total	2 hours 49 minutes
Federal	1 hour 56 minutes
State and local	53 minutes
Housing and household operation	1 hour 28 minutes
Food and beverages	1 hour 4 minutes
Transportation	43 minutes
Medical care	29 minutes
Clothing	22 minutes
Recreation	19 minutes
All other[a]	46 minutes
TOTAL	8 hours

[a] Includes consumer expenditures for items such as personal care, personal business, and private education; and savings.
Source: Tax Foundation estimates as of April 14, 1981.

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The Front Burner

By Robert C. Brown
Executive Vice President
Tax Foundation, Incorporated

"Why Tax Freedom Day?"

Every year, the Tax Foundation announces Tax Freedom Day, the day the average American would finish paying Federal, state, and local taxes if every dollar earned from January 1 went to the tax collector. Nearly every year the day falls later in the calendar.

Why bother? Isn't computing Tax Freedom Day merely an exercise in futility, another reminder of our powerlessness against the government's ability to tax, to spend, and to incur deficits in our name?

The cynical observer might answer yes. Recently, someone even calculated the year when Tax Freedom Day—given present trends—would fall on December 25; and it wasn't that far in the future.

On past Tax Freedom Days, there have been proposals for a moment of silence on the floor of Congress out of respect for the beleaguered taxpayer. Last year, there was a parade on the Capitol grounds, complete with fife and drum corps in colonial dress. Is Tax Freedom Day, then, simply a chance to tweak the tax collector's nose, a latter-day non-violent Boston Tea Party? I hope not.

While the Tax Foundation is independent and nonpartisan, we certainly acknowledge the right of government to raise through taxation the revenues necessary to conduct the affairs of the nation. However, we also believe, as did the framers of the Constitution, that government has limits; that the wealth of the nation belongs to those who create it, be they coal miners or capitalists; and that the government taxes at the pleasure of, and with the consent of, the citizenry.

On the philosophical level, we refuse to accept the assertion that those in Washington, state capitals, or city halls know how to allocate our resources better than we do. And we challenge the notion that everything a citizen earns belongs to the government, except for that portion which public officials choose to leave in his hands after collecting taxes—the thinking behind the so-called tax-expenditure concept.

Those issues are really what Tax Freedom Day—and most of the other research and public education effort generated by the Foundation—are all about. At times, when announcing these benchmarks of the growth of government, we feel as timid as the little boy who pointed out that the emperor's new clothes were nonexistent. But that is our mandate, and we take comfort in trying to live up to it.

We also take hope. For, after all, the little boy stopped the parade. Maybe we can too.

Danforth Makes Strong Argument For Tax Policy to Foster R&D

"The revitalization of American industrial innovation is the key to solving problems of persistent inflation, the inability of American producers to compete in international markets, and most importantly, our falling domestic productivity," Senator John Danforth of Missouri told businessmen attending a seminar sponsored by the Tax Foundation on March 25. In his talk, Danforth, who is fourth ranking Republican on the Senate Finance Committee, emphasized the need for a tax policy which will foster civilian research and development.

"The ability of our economy to carry out technological innovation, to introduce successful new products, services and processes, is the foundation of both our domestic prosperity and our international competitiveness," he said. He emphasized that productivity "supports much of our real economic growth which, in turn, permits a rising standard of living."

The Senator reviewed recent patterns in spending for R&D both in the U.S. and in comparison with West Germany and Japan, noting that current U.S. spending is well below what the nation spent for R&D in 1964 and well below what West Germany and Japan are currently spending as a percentage of Gross National Product. "The result of our decreasing emphasis on R&D," he charged, "has been a decline in our rate of economic growth and in the competitiveness of American products in international markets."

Surveying the current political landscape, Danforth sought to put R&D tax cuts into the context of what can be expected overall this year by way of tax reductions. "It seems likely," he said, "that there will be only one major tax reduction bill this year."

Danforth pointed out that the Democratic-controlled House Ways and Means Committee was unlikely to accept as is the tax package offered by the White House. "The alternative most frequently discussed as the starting point for the Ways and Means Committee," he said, "is the tax reduction bill reported out of the Senate Finance Committee last fall." He pointed out that this bill contained several provisions favoring increased productivity, including a 25 percent tax credit for research and development.

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About Tax Features

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TF Seminar Examines Impact of Tax Policy On R&D Developments

A number of major issues were raised at the Tax Foundation's Seminar on Tax Policy and R&D held on March 25 in Washington, D.C., concerning the impact of tax policy on corporate spending for research and development. This report does not attempt to recount the presentations given by the Seminar's participants but rather draws on the comments and materials prepared for the Seminar to highlight:

(1) the relationship between R&D and economic performance both for the U.S. economy as a whole and for a single company, and

(2) the issues involved in designing a tax policy to encourage R&D.

The first portion of the Seminar addressed an "Economic Overview—R&D and Economic Performance" with presentations by Dr. Kenneth McLennan, Vice President and Director of Industrial Studies, Committee for Economic Development; and Dr. Jay W. Schultz, Director of Research, Sterling Forest Labs, INCO Limited. The second session examined "Tax Policy and R&D—Incentives, Disincentives, and Definitions" with presentations by George Carlson, International Tax Economist, U.S. Department of the Treasury; Edwin S. Cohen, Esq., Covington and Burling; and Peter J. Hart, Price Waterhouse & Co.

Table 1

Ratios: R&D as a Proportion of GNP by Source of Funds and Expenditure by Performer

	Source of Funds						Expenditures by Performer					
	Federal			Non-Federal			Federal			Non-Federal		
Country	1968	1978	Change	1968	1978	Change	1968	1978	Change	1968	1978	Change
U.S.	1.72	1.12	-34.9%	1.11	1.13	1.8%	.40	.31	-22.5%	2.43	1.94	-20.2%
Japan	.40	.50	25.0%	1.21	1.43	18.2%	.40	.23	-42.5%	1.21	1.70	40.5%
W. Germany	.93	1.10	18.2%	1.04	1.18	13.4%	.11	.12	9.0%	1.86	2.16	16.1%

Source: Data compiled from *Science Indicators 1979*, National Science Foundation, "National Patterns of R&D Resources" OECD and raw data provided by countries to NSF staff.

Relation of R&D to Economic Performance

At the company level, an R&D project can roughly be described as compulsory; that is, one required by government regulation or needed to support an existing product or process or as elective, long-range basic research aimed at as yet undiscovered products or processes. The elective R&D is clearly the higher risk for a company to undertake.

Certain factors have operated to reduce the amount of elective R&D undertaken by companies in the last decade. First and foremost, inflation shortens the time period in which a reasonable return must be generated. Generally, elective research does not bear fruit for ten to fifteen years. While inflation interferes with all economic activity to some degree, it takes a greater toll on projects that require steady inflows of funds and attention over long periods of time. Secondly, there has been an increase in the amount of R&D resources mandated to compulsory work for product safety and environmental quality over the last decade. While such compulsory research is undoubtedly of great value, the debilitating effect on elective R&D must be recognized.

In practice, R&D is the first operation cut during downturns in business activity and the last to be returned to full budget.

These factors have, over the last decade or so, led to a decline in the proportion of resources our economy as a whole has devoted to R&D.

Federal government spending on R&D dropped from 1.72 percent of GNP in 1968 to 1.12 percent of GNP in 1978, a drop of nearly 35 percent. Over the same period, non-Federal spending on R&D remained a nearly constant 1.13 percent of GNP.

In Table 1, Dr. McLennan provides a comparison of our performance over the last decade with two of our major competitors: West Germany and Japan.

In Table 2, George Carlson provides a summary of the distribution of R&D spending in the U.S. over the period 1969-1979 classified by the source of funds. Real expenditures on R&D grew at an average annual rate of only 1.05 percent over the period 1968-1978, as compared to real GNP, which grew at an average annual rate of 3.1 percent.

The conclusion drawn from an analysis of the last decade is that U.S. research and development activities

(Continued on page 4)

Table 2

R&D Expenditures by Source of Funds 1968-1979

(1972 $ mils.)

Year	Total	Federal government	Industry	Universities	Other institutions
1968	$29,798	$18,077	$10,506	$474	$341
1969	29,556	17,176	11,543	484	353
1970	28,355	16,055	11,426	505	369
1971	27,697	15,509	11,261	551	376
1972	28,413	15,755	11,698	575	385
1973	28,937	15,415	12,550	581	391
1974	28,214	14,440	12,803	584	387
1975	27,684	14,276	12,416	590	402
1976	29,019	14,674	13,310	614	421
1977	30,374	15,327	13,975	633	439
1978	31,787	16,006	14,638	672	471
1979	33,412	16,641	15,564	718	489

Source: National Science Foundation, *National Patterns of R&D Resources, 1953-1979, Science Indicators 1978*, and *Science Highlights*, May 23, 1980.

Senator Danforth

(Continued from page 2)

Danforth noted that the bill cleared the Senate Finance Committee by a vote of 19 to 1. He predicted, "To the extent the legislation reported out of the House this year resembles the Finance Committee bill, it will be difficult for members of the Senate Finance Committee to turn their backs on it." Conversely, Danforth said, "To the extent the House legislation earmarks large reductions for nonproductivity oriented investment such as the above-the-line charitable deduction, tuition tax credits, and more extensive amelioration of the marriage penalty, the Finance Committee and the Senate will probably move closer to the Administration's bill in order to go to a conference with the House in the strongest possible bargaining position."

Danforth claimed it was "virtually certain" that the Congress would not limit itself to across-the-board individual rate cuts and accelerated 10-5-3 depreciation. At the same time, he conceded, "Most people agree that accelerated depreciation will be the centerpiece of the business tax reduction."

Regarding tax treatment of research and development, Danforth said, "If a 15 percent slowdown in our economic growth is attributable to a decreasing emphasis on R&D, shouldn't at least 15 percent of the business tax reductions be aimed at improving this aspect of technological innovation?"

The Senator favored going beyond the R&D proposals in the White House package. "In my opinion," he said, "additional incentives for R&D are needed beyond those proposed by the Administration. I think that last year's Senate Finance Committee provision should be the leading contender for inclusion."

Danforth also faulted the business community for not being "as effective in dealing with tax legislation as it might be." He chided representatives of business for spending time at hearings "attacking all of the details of the bill." They challenge the definition or wording, he said, "and before you know it you're just bogged down."

While conceding that there might be better ways to tune up a bill or make it more effective, he pointed out that "the basic question, the fundamental question is, 'Is this concept right?'"

If the concept is right, he said, "instead of immediately resolving ourselves into a committee of one million to go through the drafting process all over again, let's get on with it."

Now Available

"The Reagan Budget for Fiscal 1982—A Summary," A Tax Foundation Special Report, April 1981, 27 pages, $1.00.

"Tax Policy, The Budget, and Unemployment," Proceedings of Tax Foundation's 32nd National Conference, 64 pages, $5.00.

Tax Freedom Day

(Continued from page 1)

nual promotion of this observance. In the interest of perpetuating the idea, I would like to turn it over, without obligation, to some nationally known and highly respected organization. Obviously, I thought first of your Tax Foundation, Inc."

The choice was a logical one, since Tax Foundation had already highlighted Tax Freedom Day in its publications and Foundation economists had been computing, since 1953, the size of the bite taken by taxes from the average worker's eight-hour day. The Foundation readily accepted Hostetler's offer of the concept which he had registered with the U.S. Copyright Office in 1953.

Over the years, Tax Freedom Day has proven to be among the most popular research efforts of the Foundation. Traditionally, the Tax Foundation times the announcement of Tax Freedom Day to coincide with the date U.S. taxpayers file their income tax returns, April 15.

R&D Seminar

(Continued from page 3)

have stagnated and have narrowed in scope and purpose. Revitalizing R&D is fundamental to improving economic performance, particularly improving productivity—which is one of the best methods of permanently reducing inflation.

Tax proposals have been designed to encourage additional R&D activities, but such a tax policy must overcome two important obstacles: (1) drafting of working definitions of what constitutes R&D, and (2) removing the disincentives that work against R&D from the Tax Code, in particular those housed in Section 861.

The drafting of a workable set of definitions is an obstacle common to all tax proposals for R&D. Currently, there is not a great deal of need for thorough definitions for tax purposes, although a very general definition now exists in Section 174 of the IRC and the Financial Accounting Standards Board has issued Statement #2 entitled "Accounting for Research and Development Costs." These two sources are a good beginning to a practical set of definitions, but it will take much more if the Congress decides to provide a tax credit for R&D expenditures.

The other principal issue for tax policy and R&D is the disincentive that results from application of Section 861 of the IRC. Briefly, Section 861 requires corporations to allocate a portion of domestic R&D expenses to foreign source income on the rationale that the results from R&D help all worldwide operations, not just those in the U.S. While there may be sound logic behind accounting for R&D this way, Section 861 can and has forced some companies into the position where the next dollar spent *in the U.S.* on R&D will receive no tax benefit—it will not be deductible for tax purposes because of the foreign tax credit limitation. In any event, Section 861 can be a major hindrance to the expansion of R&D and should be modified to remove R&D from this allocation process.

MONTHLY TAX FEATURES

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23 States' Tax Bills Topped Grants-in-Aid From U.S. Government

"You get what you pay for." Not necessarily. For 23 "paying" states, Federal grant programs cost more in tax dollars than the citizens of those states received back in the form of grants-in-aid. Tax Foundation economists annually tally up how much each state pays in taxes to the national government, both for all Federal operations and for grant-in-aid programs alone. The latter figure is compared with the various grants-in-aid coming to the states from Uncle Sam. In fiscal 1980, 23 states paid more than they received.

Topping the list of "paying" states was Texas, which sent $1.40 in taxes for a dollar of Federal aid. (Last year, the Lone Star State was second, with a "cost" of $1.36 for each $1 from Washington.) Connecticut was second, with a tax payment of $1.35 per aid dollar, followed by Indiana ($1.34), Ohio ($1.27), and Florida ($1.23).

At the top of the "receiving" list was Vermont, which "paid" only 45 cents for each $1 of Federal aid, followed by: South Dakota (48 cents), Alaska (52 cents), Mississippi (53 cents), and Montana (60 cents).

In working out the comparison of Federal taxes with Federal grants-in-aid, Foundation researchers include general revenue sharing and trust fund aids, but they do not count

(Continued on page 4)

Income Security Costs Consumed 34 Cents of Worker's Tax Dollar

The Federal government will spend $655 billion in fiscal year 1981. In order to make this staggering figure more comprehensible, Tax Foundation economists computed what one worker's tax share of that spending would be and how that tax burden would be divided among the various functions in the Federal budget.

The worker they chose is the sole source of support for a wife and two dependent children. He earns $22,000 a year, close to the median U.S. family's income. His total Federal tax bill for 1981 is $6,339.

The largest single bite from this worker's Federal taxes goes to what is called income security—outlays for retirement, disability, and other social security payments and to welfare. That represents just over 33.6 percent of this worker's tax bill, or a total of $2,127. The nation as a whole spends more than $229 billion for income security.

Second in line is defense spending, which accounts for 23 cents out of every dollar paid—$1,501 per year. In addition, about 11¢ of each tax dollar must go just to pay the interest

(Continued on page 3)

How the Federal Government Will Spend A Worker's Tax Dollars in Fiscal 1981[a]

Function	Worker's share: Amount	Worker's share: Percent of total	Total amount (millions)
Income security	$2,127	33.55	$229,675
National defense	1,501	23.68	162,115
Interest	716	11.29	77,250
Health	618	9.75	66,725
Education, training, employment, and social services	283	4.47	30,565
Transportation	222	3.51	24,047
Veterans' benefits	207	3.27	22,372
Natural resources and environment	127	2.00	13,676
International affairs	105	1.65	11,278
Community and regional development	95	1.50	10,257
Energy	86	1.35	9,250
General purpose fiscal assistance	63	1.00	6,832
General science, space, and technology	58	.91	6,215
General government	47	.74	5,096
Administration of justice	44	.69	4,732
Commerce and housing credit	30	.47	3,233
Agriculture	11	.17	1,161
Total	$6,339	100.00	$655,173[b]

[a]In this example, the worker is the sole source of support for his wife and two dependent children; he earns $22,000 a year.
[b]After deducting from the above $29,305 million in undistributed offsetting receipts, not classified by function.
Source: Total spending as estimated in the revised budget presented in March 1981; worker's share computed by Tax Foundation.

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The Front Burner

By Robert C. Brown
Executive Vice President
Tax Foundation, Incorporated

"Who Owns America?"

On April 2, Alan J. Pifer, President of the Carnegie Corporation of New York, one of the 15 largest foundations in the country, addressed the Federation of Protestant Welfare Agencies in New York. His talk, "The Trends of the 1980's: Where Are They Leading Us?" was reported in the *New York Times* the next day and widely circulated by the FPWA.

Mr. Pifer set up—and then knocked down—what he categorized as "some very large myths about the history of the past two decades." Space does not permit me to examine all six "myths" proposed by Mr. Pifer.

I do wish to address one "myth," however, because I feel it is central to understanding so much that is askew in the current debate of taxing and spending.

The "myth," in Mr. Pifer's words, is "that federal spending is 'out of control.'" He goes on to say, "The facts hardly support such a claim since the federal budget, measured as a proportion of GNP, is less than 5 percentage points larger today—23 percent as opposed to 18.1 percent—than it was twenty years ago."

The Carter Budget for fiscal 1980 puts the Federal budget in 1961 at 18.6 percent of GNP, $94.4 billion out of a total $508.3 billion. The Reagan Budget for fiscal 1981 estimates a Federal budget for 1981 at 23.3 percent of GNP, $662.7 billion out of a total GNP of $2,843.7 billion.

Forget the differences in our figures for 1961. One thing is quite apparent: Not only has the pie been expanding for twenty years, but the Federal government has been taking a progressively larger slice of that growing pie. Mr. Pifer may see nothing wrong with this. I do.

It boils down to, Who owns America? Behind the thinking of those who find acceptable a nearly 5 percent growth in the amount of our national wealth siphoned off by the public sector lies the philosophy that gave birth to the so-called "tax expenditure" concept: The wealth of the nation belongs to the government, except for that portion which the government decides to leave in the hands of individuals. Such is not my understanding of the American economic system.

I hold no brief against Alan J. Pifer. But the economic viewpoint which his speech embodies isn't limited to after-luncheon talks. It has brought us, in addition to the tax expenditure concept, increasing tax bites, the so-called windfall profits tax (really an excise tax on oil at the wellhead), sunsetting, and entitlement programs. And against those notions, and the thinking that spawns them, I do hold a brief—and a very serious one indeed. For I believe that the people own America—and the wealth they have created through productive enterprise.

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Archer Traces Roots of Problems In Social Security Trust Fund

"I have watched the social security system nearly destroyed in the 16 years I have been in Congress," Representative Bill Archer (R-Tex.) recently told the annual meeting of the National Taxpayers Conference. Despite the imperiled state of the system, however, Archer also pointed out that he was "more optimistic about the U.S." than he has been since he came to Washington.

Archer disagreed with those who say that the system is in trouble because of the "inflationary escalator," which automatically gives retirees an increase equal to the C.P.I. and with those who want to change the way in which the C.P.I. is calculated.

"I'm not sure I agree with those who say let's change the formula," he said, "because if we change the formula on the inflationary escalator, it may work to help the program now. But five years from now, all these things may be distorted once again—interest rates may come back down—and all of a sudden you are paying a bigger amount out than you are today." Archer called changing the formula "a two-edged sword" and argued that it was "not the answer to the social security problem."

The Texas Republican traced the roots of the system's current difficulties to 1971 and 1972 when Congress increased "benefits across the board 32 percent when inflation was running 4 percent a year." Without those increases, Archer said, social security "would be viable today," even if there had been an inflationary escalator in the system since its inception. In fact, he said, there would have been "a surplus, a tremendous surplus in the fund," if those hikes had not been voted.

Rooting the problems in political decisions by Congress to "increase the benefits in excess of inflation to get more votes from the elderly," Archer faulted actions by the Congress to increase benefits by 10 percent in 1971, 20 percent in 1972, and 7 percent plus the inflationary escalator in 1973. "In those three years," he said, "we increased social security benefits [allowing for a compounding effect] across the board by 40 percent, and then we added the inflationary escalator. No wonder we have problems today."

Archer claimed that actuarial extrapolations indicate that decisions made in 1971-73 "built into the system a $4 trillion deficit over the next

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Aide Calls "Reagan Federalism" A Major Administration Goal

Calling "Reagan Federalism" one of the President's three major goals, Robert B. Carleson, Special Assistant to the President for Policy Development, explained why and how the President is seeking to "move authority and responsibility from the Federal level to the state and local levels" to a meeting of state tax research association executives on April 27, 1981.

Carleson was one of the principal speakers at the annual meeting of the National Taxpayers Conference, an organization of tax research associations in 33 states joined together to facilitate the exchange of information and coordination on problems of common concern.

President Reagan, he said, believes that his Administration should be doing "almost everything that we can do in almost every subject matter area, across the domestic government, to bring authority and responsibility from the Federal level to the state and local levels." The White House, he said, has put "the burden of proof" on existing programs that they should remain primarily Federal programs.

Conceding that some things, like social security, obviously involve a "heavy Federal role," Carleson charged, "We are, in effect, shifting the burden of proof." This applies to policy-making decisions and allocations of regulatory authority as well as to spending decisions. Carleson categorized the block grant as one of the tools "involved in getting from where we are today to where we want to be in the future."

While he admitted that the block grant approach was being used in part as a way of reducing spending, Carleson asserted that "the block grant and its movement from the Federal to the state and local level would have been done even if the economy were in excellent shape." Given the present state of the economy and the need to "bring inflation under control," Carleson explained that the block grant has become "a process that helps us to ameliorate the cutting that's going on and will permit these limited funds to be used more effectively by decision-makers at the state and local levels."

Under the block grant system, Carleson explained, decision making power will be vested in the governors and state legislators, who "will have to decide how much money they are going to spend on one function and how much on another." This is a rather mixed blessing, he said, since "at the present time, they have the Federal government to blame. . . . Along with this new authority and responsibility comes political heat." In trying to implement the new Federalism, he said, "we have found that there are some state people who have been asking for, discretion for a long time, but who are now trying to find almost every reason in the book for delaying or for not getting this kind of authority and this kind of discretion."

Carleson held out little hope for those who complain that the shift to block grants is happening too fast. "Because of the economic situation and the absolute need to get the economy going again, to get inflation down and adopt the package as soon as possible," he said, "everybody is going to have to be in a state of non-business-as-usual."

(Continued on page 4)

Currently Available

"Memorandum on the Allocation of the Federal Tax Burden and Federal Grants-in-Aid by State, Fiscal Year 1981, 6 pages, single copies free.

"Allocating Tax Burdens and Government Benefits by Income Class, 1972-73 and 1977," Government Finance Brief No. 31, 31 pages, $2.50.

"The Reagan Budget for Fiscal 1982—A Summary," A Tax Foundation Special Report, April 1981, 27 pages, $1.00.

Worker's Taxes

(Continued from page 1)

due on the national debt. That will take $716 from the household budget this year.

General government—the cost of running the government which taxes him—costs this American worker slightly more than 0.7 cents of every tax dollar paid to Uncle Sam. That's $47 of his total tax bill.

Most revenues are collected by the Federal government through the Federal income tax system, which claims $2,423 from the worker's annual earnings. Social security taxes take another $1,463. Numerous indirect taxes, such as the employer's share of social security taxes, corporate income taxes, excise taxes on liquor, gasoline, tobacco, and air travel, claim another $2,453.

The table on page 1 gives complete figures on how the Federal government spends the taxes paid by a worker earning $22,000 per year in fiscal 1981.

Rep. Archer

(Continued from page 2)

25 years." He told the tax researchers, "Finally, the Congress has reached a point where there's no easy answer to social security. We can't keep promising and promising and promising. And I am happy to tell you that I see, on a bipartisan basis on the Social Security Subcommittee, a desire to truly try to constructively rectify social security."

One major problem Archer cited was the need to keep the Subcommittee and the Congress as a whole from tapping general Treasury funds. The reason for staying away from general funds to bolster the system, he said, was because "the Treasury has less money than the social security fund does and a bigger deficit."

"But there are those who would like to go into the Treasury," he cautioned, "and say, well, the answer to social security is just take that money out. And there's not a one of them that has yet recommended that we provide a tax to put that money into the Treasury."

Taxes vs. Aid

(Continued from page 1)

"shared revenues," such as payments in lieu of taxes on Federal lands in certain states.

The average "paying" state had to fork over $1.18 for each dollar received back in Federal aid last year. But the Federal tax burden does not end the costs incurred by states benefiting from Uncle Sam's largesse, according to Tax Foundation economists. In order to administer the programs funded by the grants, state and local governments must come up with matching funds, in most cases. These, together with administrative costs, must be allocated from revenues raised locally. In 1980, every $2.50 of Federal aid required about $1 in matching funds from either state or local government units.

Federal grants-in-aid cover a wide range of programs. Of the 100 or so separate areas targeted by such aids, the largest are Medicaid ($14.0 billion), highway construction ($8.8 billion), welfare maintenance assistance ($7.1 billion), general revenue sharing ($6.8 billion), employment and training assistance ($6.2 billion), and wastewater treatment facilities ($4.3 billion).

The 23 paying states sent Washington $58.5 billion in taxes and received back about $49.7 billion. The remaining $8.8 billion went to the District of Columbia and the 27 states who paid less than $1 in taxes for each $1 of Federal aid.

Each state's tax costs for all grant programs are computed by a special formula devised by Tax Foundation economists. The tax costs are then compared to actual dollar amounts of grants received by each state, as reported by the Federal Treasury.

The accompanying table gives details for all the states and the District of Columbia. Individual copies of the full "Memorandum on the Allocation of the Federal Tax Burden and Federal Grants-in-Aid by State, Fiscal Year 1981," are available free from the Tax Foundation.

Federalism

(Continued from page 3)

Carleson answered the charge that the block grant system would simply create a state and local bureaucracy to replace the eliminated Federal bureaucracy by asserting that the personnel already exist at the state-local levels. "They're there primarily because of having to deal with all of these Federal requirements," he said.

He explained that one of the major challenges the Administration faces is avoiding efforts by special interest groups to keep their programs earmarked or categorized. "One of the battles we're going to have to wage," he said, "is to make sure each of these blockgrants stays as pure as we can make it." Another battle he described was the transfer of control to state-local levels. "People in Washington," he said, "just can't believe that we want to let the states make these kinds of decisions."

Federal Grants-in-Aid to State and Local Governments and Estimated Federal Tax Burden for Federal Grants
Fiscal Year 1980

State	Millions		Tax burden per dollar of aid	
	Grants[a]	Estimated tax burden for grants[b]	Amount	State rank
TOTAL	$88,636.7	$88,636.7	$1.00	—
Alabama	1,556.2	1,134.6	.73	40
Alaska	441.9	230.5	.52	48
Arizona	823.0	930.7	1.13	13
Arkansas	934.7	629.3	.67	42
California	8,723.0	10,450.3	1.20	9
Colorado	965.3	1,161.1	1.20	8
Connecticut	1,156.8	1,560.0	1.35	2
Delaware	275.3	257.0	.93	26
Florida	2,851.1	3,501.2	1.23	5
Georgia	2,370.3	1,701.8	.72	41
Hawaii	463.2	390.0	.84	31
Idaho	369.6	292.5	.79	35
Illinois	4,476.1	5,300.5	1.18	10
Indiana	1,603.1	2,153.9	1.34	3
Iowa	994.4	1,125.7	1.13	12
Kansas	816.7	983.9	1.20	7
Kentucky	1,462.3	1,143.4	.78	36
Louisiana	1,563.3	1,418.2	.91	28
Maine	522.5	328.0	.63	45
Maryland	1,886.2	1,843.6	.98	24
Massachusetts	2,886.5	2,313.4	.80	33
Michigan	3,926.1	4,041.8	1.03	20
Minnesota	1,664.8	1,595.5	.96	25
Mississippi	1,177.8	629.3	.53	47
Missouri	1,698.2	1,852.5	1.09	18
Montana	459.7	274.8	.60	46
Nebraska	545.8	602.7	1.10	15
Nevada	322.0	354.5	1.10	17
New Hampshire	345.4	354.5	1.03	21
New Jersey	2,832.9	3,439.1	1.21	6
New Mexico	563.6	416.6	.74	39
New York	9,569.4	7,277.1	.76	38
North Carolina	1,927.5	1,772.7	.92	27
North Dakota	342.6	230.5	.67	43
Ohio	3,433.3	4,352.1	1.27	4
Oklahoma	1,057.9	1,108.0	1.05	19
Oregon	1,015.1	1,037.1	1.02	22
Pennsylvania	4,514.5	4,609.1	1.02	23
Rhode Island	477.4	363.4	.76	37
South Carolina	1,065.4	877.5	.82	32
South Dakota	439.5	212.7	.48	49
Tennessee	1,623.7	1,453.6	.90	29
Texas	3,961.2	5,539.8	1.40	1
Utah	547.5	434.3	.79	34
Vermont	355.4	159.5	.45	50
Virginia	1,807.9	2,056.4	1.14	11
Washington	1,632.3	1,799.3	1.10	16
West Virginia	949.5	602.7	.63	44
Wisconsin	2,023.4	1,799.3	.89	30
Wyoming	190.8	212.7	1.11	14
District of Columbia	1,019.6	328.0	.32	51

[a]Excludes shared revenues and payments in lieu of taxes; includes general revenue sharing and trust fund aids.
[b]The total tax burden for grants is assumed to equal grant payments.
Source: Tax Foundation computations based on data from U.S. Treasury Department and Office of Management and Budget.

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MONTHLY TAX FEATURES

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Tax Foundation, Incorporated

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U.S. Family $427 Poorer in '81 than '71; Federal Taxes and Inflation Take Big Bite

US FAMILY $427 POORER THAN TEN YEARS AGO
INFLATION
TAXES
ART WOOD
AFTER TENNIEL
"Now, here, you see, it takes all the running you can do to keep in the same place. If you want to get somewhere else, you must run at least twice as fast as that."- THROUGH THE LOOKING GLASS

After Federal taxes and inflation have taken their bite, the American family will finish 1981 $427 poorer in real purchasing power than it was a decade ago, say economists at the Tax Foundation. This, despite a current dollar increase of more than 125 percent in the family's income. Federal tax burdens have more than tripled over the decade, while inflation has cut purchasing power by nearly 56 percent. The median U.S. family (married couple with two children, supported by one worker, employed full-time, year-round, filing a joint return) will earn an estimated $23,700 before taxes in 1981. Ten years earlier, its income was $10,314. However, Federal income taxes will claim $2,801 of those earnings this year, compared to $933 in 1971, an increase of over 200 percent in the tax burden. Social security taxes will also take a much larger bite—$1,576 in 1981 versus $406 ten years earlier, an almost 300 percent boost, according to Tax Foundation calculations. This represents a total bite in direct Federal taxes of $4,377 in 1981, an increase just shy of 227 percent over ten years. So much for taxes.

When inflation enters the picture, the family's plight becomes even more dire. An apparent "gain" of $10,348 in take-home pay for the last ten years turns into a $427 loss in spending power when inflation is

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The Front Burner

By Robert C. Brown
Executive Vice President
Tax Foundation, Incorporated

"Making Tax Law in a Goldfish Bowl"

"There are two things one should not see being made," the late Winston Churchill once opined, "sausages and laws." The quote may be spurious, but the sentiment is right on target. Given proper safeguards, some things are better conducted behind closed doors. The writing of laws, specifically tax laws, is one such thing.

What of the public's right to know, freedom of information, and increased moves for open hearings and recorded votes? Each of these concepts has a place in our form of representative democracy. However, like the very abuses they were designed to correct, each is itself open to abuse and exploitation. You can't act in a closet, and you certainly can't make laws in a goldfish bowl.

Lawmaking is a political process, and, as the old cliche has it, politics is the art of the possible.

Politics involves cutting deals, horsetrading, giving a little to get a little. Batteries of microphones and banks of television lights are not conducive to such activity. To understand why, we must draw a careful distinction between *making* a law and *enacting* a law.

In the United States, the President or a duly elected Congressman or Senator can *propose* legislation. *Making* the law—that is, hammering out the concepts, refining the language, framing the exact policy implications—is a function delegated by the Constitution and Congress's own rules of procedure to specific committees of the Congress. As the lawmaking proceeds, there is inevitably a vigorous debate between the Executive and Legislative Branches as well as among the legislators themselves. At this point of the process, too much public attention is questionable, if not downright counterproductive.

Currently, the debate over taxes is being conducted up and down Pennsylvania Avenue, accompanied by a veritable war of press conferences. The glare of publicity seems to have hindered, rather than helped, the process of forging the kind of tax reform bill this nation needs. Positions harden, language acquires unintended meanings, vital elements of any sound legislation fall between the cracks because they don't play as well on camera as others.

I submit that it is time to turn off the arc lights and tape recorders and return to a quiet dialog behind closed doors. In an atmosphere of mutual respect and quiet, those charged with formulating tax and fiscal policy can debate the issues. The tax writing committees can produce the legislation. Then, once the bill or bills are reported out, the public debate can begin again. But for now, let's leave the goldfish bowls to the goldfish.

Congressman Wields Less Clout Than Voters Think, Conable Says

EDITOR'S NOTE: Barber B. Conable, Jr., Representative from the 35th District of New York, is Ranking Minority Member on the House Ways and Means Committee. He is also a member of the Joint Committee on Taxation. Congressman Conable, who was first elected to Congress in 1964, received the Tax Foundation's Distinguished Public Service Award in 1979.

Because of his long experience in the Congress and the cogency of his views on how the Legislative Branch operates, the Tax Foundation is pleased to share with our readers the thoughts expressed by the Congressman in his June 4 Washington Report.

POWER AND INFLUENCE—I wince when people, either through misunderstanding or excessive enthusiasm or deliberate exaggeration, introduce me as "a member of the POWERFUL Ways and Means Committee" or "one of the most INFLUENTIAL people on Capitol Hill." Usually kindly intended statements of this sort create an impression which is one of the banes of my public life.

Every Congressman has the same problem to one degree or another—usually his own people think of him as a sparkling exception to an otherwise unrelieved collection of klunks. Even those who are not his supporters in his district are likely to dislike him because they feel he will not use his power or influence for the benefit of the district in the manner they desire. He holds an important-sounding position, they read about him in the paper, they see him on television, he is in the powerful Federal government: ergo, he can push a button and make things happen. Conversely, if he doesn't push a button and make things happen, he must be stupid, unfriendly or, possibly, crooked.

The sometimes inexperienced people who are his political opponents say, in effect, "Look at him—all that influence—and look at what a mess we're in! Send me to Congress in his place and in two months I'll have it all straightened out." They forget that there are 534 other members of Congress, each of whom thinks he has a personal mandate from his people to "straighten it all out," but who can't do much unless in the House 217 others agree in every detail or in the Senate 50 others agree. In short, after sixteen years here I find myself musing a good deal about the nature of "power" and "influence" in the Congressional environment.

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MARK YOUR CALENDAR

Tax Foundation's 33rd National Conference and 44th Annual Dinner will be held this year on Wednesday, December 2nd at the Plaza Hotel in New York City. Details will follow in future issues of *Monthly Tax Features*.

Government Outlays Top $1 Trillion for '81; $4,678 Spent Per U.S. Man, Woman, and Child

Government spending will top $1 trillion in 1981, for the first time in U.S. history according to Tax Foundation projections. All units of government—Federal, state, and local—will spend an estimated $1.07 trillion in the current fiscal year, say Foundation economists, up from $942 billion in fiscal 1980.

That means that government will be spending $4,678 for each man, woman, and child in the United States, or $13,211 per U.S. household. Federal expenditures will continue to claim the lion's share of all outlays, a total of $710 billion—two-thirds of all government spending.

Federal spending, including grants to state and local governments, is also growing faster than spending from funds raised by states and localities, which will total an estimated $358 billion in fiscal 1981.

Since 1975, Federal spending has grown by 109 percent, while state/local spending has increased by 63 percent. Long-term trends show a relentless escalation of government spending at all levels.

In 1950, all government units were spending slightly more than $70 billion, with Federal outlays accounting for $44.8 billion, and state/local spending consuming $25.5 billion. It took 19 years for total government spending to top the $300 billion mark (in 1969). State and local governments reached that mark in just another eleven years (1980).

Because the size of households has decreased in recent years and the number of households has increased faster than the population at large, spending per household has grown less rapidly than spending per capita—a 68 percent increase from the $7,871 spent by all units of government per household in 1975, versus a 79 percent increase in dollars spent by government per capita from the $2,612 level of expenditure which prevailed in 1975.

The accompanying table gives further details.

Federal, State, and Local Government Expenditures[a]
Selected Fiscal Years, 1950-1981

Fiscal year	Amount (billions)			All governments	
	All governments	Federal	State and local	Per household	Per capita
1950	$ 70.3	$ 44.8	$ 25.5	$ 1,614	$ 468
1960	151.3	97.3	54.0	2,866	846
1965	205.7	130.1	75.6	3,581	1,069
1970	333.0	208.2	124.8	5,252	1,643
1975	560.1	340.5	219.6	7,871	2,612
1976	625.1	389.9	235.2	8,579	2,886
1977	680.3	430.6	249.7	9,176	3,111
1978	745.4	477.8	267.6	9,804	3,373
1979	832.4	535.7	296.7	10,764	3,726
1980[b]	942.4	618.2	324.2	11,913	4,171
1981[b]	1,068.2	710.4	357.8	13,211	4,678

[a]Grants-in-aid are counted as expenditures of first disbursing unit.
[b]Tax Foundation estimates.
Source: Basic data from U.S. Department of Commerce, Bureau of the Census; computations by Tax Foundation.

Congress

(Continued from page 2)

"Power" should be put completely to rest in Congress. Power exists here, but it is so diffused that it can be exercised only by consent; and nobody, not even a Speaker or a Majority Leader, has consent for more than a moment under sharply delimited procedural standards. The elected leaders of a modern Congress have very little to give and therefore very little to withhold in the exercise of discipline within the group that elects them. Autocrats don't last long in positions of influence.

"Influence" exists here, but it is a relative term. It does not go with position, but with respect. Some who through survival or accident have gravitated into important-sounding posts are worked around, not with. Some who have no special positions at all have strong voices in the group and influence collective decision. But the process of decision in Congress is uncertain at best, making the influences which affect it also uncertain.

As generalists, operating mostly through committees, we vote on many things in the course of a week with which we are familiar in only a degree. Over time, we come to know that so-and-so has a good head on educational legislation, that somebody else works hard and has good judgment about military matters, or that Congressman X has political sentiments with which we generally agree. Because all legislative voting is public, observed by colleagues with interest, then, some outstanding people of good reputation with respect to some limited area of government may influence a handful of undecided or unprepared or easily swayed colleagues to vote the way they do, on some issues, particularly those issues which are not of great political significance.

Influence may also be asserted through political association with the White House, but that is also more a personal matter rather than a matter of position. An exception to this rule is that Senators, with their Constitutional power to confirm Presidential appointments, seem to have more clout in getting jobs for people in a new Administration than House members.

It's good to be in the middle of things, and Congress clearly is a place of action. It's a frustrating place for people who want to push a button and make things happen, though, and any realist had better not talk too much of power or influence among Congressmen.

Median Family Incomes Before and After Direct Federal Taxes and Inflation

1971-1981

Year	Median family income[a]	Direct Federal taxes: Income tax[b]	Direct Federal taxes: Social security	Direct Federal taxes: Total	After-tax income: Current dollars	After-tax income: 1971 dollars[c]
1971	$10,314	$ 933	$ 406	$1,339	$ 8,975	$8,975
1972	11,152	982	468	1,450	9,702	9,392
1973	11,895	1,098	632	1,730	10,165	9,264
1974	13,004	1,267	761	2,028	10,976	9,014
1975	14,156	1,172	825	1,997	12,159	9,149
1976	15,016	1,388	878	2,266	12,750	9,071
1977	15,949	1,466	933	2,399	13,550	9,056
1978	17,318	1,717	1,048	2,765	14,553	9,034
1979	19,097	1,876	1,171	3,047	16,050	8,955
1980	20,900[d]	2,197	1,281	3,478	17,422	8,563
1981	23,700[d]	2,801[e]	1,576	4,377	19,323	8,548

[a]Median income for all families with one earner employed full-time, year-round.
[b]Married couple filing joint return, two children.
[c]Adjusted by Consumer Price Index of the Bureau of Labor Statistics.
[d]1980 and 1981 estimated by Tax Foundation.
[e]Assumes no change in current law.

U.S. Family

(Continued from page 1)

factored in. Measured in 1971 dollars, today's median family survives on an annual income of $8,548. In 1971, that family's paycheck, adjusted for inflation, had a purchasing power of $8,975. This means that the family can buy about 5 percent less goods and services in 1981 than it could ten years ago.

Unlike Alice's experience in Wonderland, the American family may run as fast as it can, but it still can't stay even. For ten years, it has been slipping slowly backwards in the struggle to keep its income from eroding.

The accompanying table details the impact of inflation and Federal taxes on family income.

Local Revenue Triples in Decade; Growth of Property Taxes Slows

General revenue of local governments reached $212 billion in fiscal 1979 (latest year reported), nearly three times the $72 billion recorded in 1969. This was the steepest rate of growth in local general revenue to be recorded for any decade on record in data going back to 1902, according to Tax Foundation economists.

Intergovernmental aid from Federal and state funds reached almost $95 billion in 1979, accounting for nearly $69 billion (or 49 percent) of local revenue growth for the decade. In 1979 these intergovernmental aids made up 45 cents of every dollar of local general revenue, up from 36 cents ten years earlier. Direct Federal aid rose from just over $2 billion in 1969 to almost $21 billion in 1979, an increase of 818 percent. State aid increased from $24 billion to $74 billion, or 211 percent.

Property taxes remained the largest segment of locally collected revenue, rising from $30 billion in 1969 to more than $62 billion in 1979. This 110 percent increase, however, was the smallest level of growth recorded for any major revenue source. As a result, the relative share of local general revenue derived from property taxes slid from 41 cents per dollar of revenue in 1969 to about 29 cents in 1979.

Local sales and gross receipts taxes more than quadrupled during the decade, but still accounted for only a small share of total local general revenue—about 5 cents per dollar in 1979.

Other local taxes, including income taxes and licenses, accounted for less than 4 cents per dollar of general revenue in 1979, about the same share as in 1969.

In 1979 local governments raised nearly $37 billion (17 percent of total general revenue) through charges for public services and other nontax receipts. This compares with $11 billion in 1969, representing an increase of 230 percent. The table below supplies details.

Composition and Growth of Local Government Revenue by Source

Fiscal Years 1969 and 1979

Source	Amount (billions) 1969	Amount (billions) 1979	Percent of total 1969	Percent of total 1979	Percent change 1969-1979
Total general revenue, all sources	$71.9	$212.0	100.0	100.0	194.7
Total, own sources	45.9	117.2	63.7	55.3	155.6
Total, taxes	34.8	80.6	48.3	38.0	131.8
Property tax	29.7	62.5	41.3	29.5	110.3
Sales and gross receipts	2.5	10.6	3.4	5.0	328.3
Other taxes and licenses	2.6	7.6	3.6	3.6	189.2
Charges and miscellaneous	11.1	36.6	15.4	17.3	230.4
Total, intergovernmental aid	26.1	94.8	36.3	44.7	263.4
From states	23.8	74.2	33.1	35.0	211.1
From Federal	2.2	20.6	3.1	9.7	818.3

Source: Bureau of the Census, Department of Commerce; and Tax Foundation computations.

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New "Facts & Figures" Gives Fiscal Profile of American Economy

"To find the right answer, it is first necessary to ask the right question," observes Tax Foundation's Chairman Thomas M. Macioce in his Foreword to *Facts and Figures on Government Finance*, 21st biennial edition. He continues by pointing out that "in matters of public finance and in the tax and fiscal arena, those questions cannot be formulated without mountains of statistical data."

And mountains of data are what the latest major revision of Tax Foundation's widely used handbook on government financial operations contains. There are 250 tabulations in this edition, 40 of them brand new, containing over 51,000 entries. Some of the highlights of the U.S. fiscal profile cited in the new *Facts and Figures* are:

- Since 1960, the portion of personal income taxable under Federal law has risen from 43 percent to nearly 60 percent. At the end of World War II in 1945, only 31 percent was taxable.
- Social security taxes for the median income family in 1980 were about 10 times what they were in 1959. Last year, for every dollar paid out in Federal income taxes, the median income family had to pay another 58 cents in social security taxes.

(Continued on page 3)

First Quarter Tax Index Tops 400 As Size of Federal Tax Bite Climbs

The Tax Index passed another milestone in the first quarter of 1981, topping the 400 mark (1967 = 100) for the first time, according to Tax Foundation economists. The Index rose by 6.8 percent from the fourth quarter of 1980 for a stunning 30.3 percent annual rate of increase. At a level of 408.2 in this year's first quarter, the Tax Index was almost 16 percent higher than in the same period a year earlier.

After dipping slightly during the second quarter of last year in reaction to the brief recession, the Index has climbed in each of the three quarters since.

In the first quarter of this year, the Federal Tax Index reached 412.2, up from the previous quarter by 8.3 percent, or an annual rate of 37.6 percent. At the same time, the State-Local Index rose by 3.8 percent, or 16.3 percent on an annual-rate basis, reaching 400.0.

The major taxes contributing to the latest quarterly upsurge in the Index were Federal social security taxes (both the rate and base increased in January) and the so-called windfall profits tax on oil. The latter, classified as an excise tax, is grouped under indirect business taxes.

(Continued on page 2)

Tax Index and Related Measures
Quarterly, at Seasonally Adjusted Annual Rates, (1967 = 100)

Year and quarter		Tax Index	Output Index[a] Current price	Output Index[a] Constant prices	Price Index[b]
1978	I	278.1	254.2	138.7	183.3
	II	293.0	266.3	141.7	188.0
	III	300.3	274.0	143.0	191.5
	IV	313.2	284.1	144.9	196.0
1979	I	321.1	292.7	146.3	200.1
	II	325.8	297.0	145.7	203.9
	III	336.2	305.7	147.1	207.7
	IV	344.5	312.2	147.4	211.8
1980	I	353.1	321.6	148.5	216.6
	II	349.3	320.8	144.7	221.7
	III	363.4	329.8	145.5	226.6
	IV	382.1	341.5	146.9	232.5
1981	I	408.2	356.9	149.9	238.1

[a] Gross national product.
[b] Implicit price deflator for gross national product.
Source: Tax Foundation computations and estimates based on data from U.S. Department of Commerce, Bureau of Economic Analysis.

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The Front Burner

By Robert C. Brown
Executive Vice President
Tax Foundation, Incorporated

"Keeping the Numbers Honest"

George Bernard Shaw is supposed to have observed that if all the economists in the world were laid end to end they still would not reach a conclusion. While Shaw may have overstated the case, the tentativeness of the "dismal science" is real enough. To find more than a handful of economists who will agree on present data is difficult. To find any kind of consensus on future trends is well nigh impossible.

Long-range economic forecasting is a very chancy business, indeed, and highly subject to manipulation.

If the projections don't fit the goals, just change assumptions until the desired numbers pop out of the computer. This is a game regularly played by economists of all stripes. In Washington, it has been raised to the level of a fine art.

Looking at the out-year projections for spending and revenues, whether in the Administration's bill or the various alternatives which were debated before the final vote, is enough to give the thoughtful observer the willies. All things being equal, and given the most optimistic assumptions, if everything works out just perfectly, we will reach the economic promised land in 1984. How we will get there and what shape we will be in when we arrive depends on whose projections—and assumptions—you buy.

I do not mean to downgrade the overall thrust of both the budget action and the tax restructuring that have taken place. Government spending had to be reined in. The wealth of the nation should be returned to, or left with, those who created it through productive labor. A strong national defense is clearly mandated.

However, the easy cuts have all been made. We must yet ask difficult policy questions about the size and role of the Federal social welfare structure. We must look again at the dangerous tax expenditure concept and the notion of sunset.

If economic slight-of-hand ever had a place, that time has passed. Out-year projections must be accurate or the coming debate will mean little. This *is* the only economy we've got. If there are problems down the road, let's see them and deal with them. We can only do so if we keep our eyes open—and our numbers honest.

Tax Index

(Continued from page 1)

There was also a significant rise in social insurance contributions at the state-local level. The overall index for social insurance taxes reached 544.9 in the first quarter, on the 1967 base. This represented an enormous jump from the closing quarter of 1980—a rise of 10.0 percent, which is equivalent to 46.4 percent on an annual basis. At the Federal level, the jump was even steeper; social insurance taxes climbed by 11.3 percent for the quarter, a seasonally adjusted annual rate of 53.5 percent.

Measured against the first quarter of 1980, the Federal index for indirect business taxes jumped from 184.4 to 364.9. This represented a 98 percent advance, largely because of revenues from the windfall profits tax which became effective on March 1, 1980, according to Tax Foundation researchers.

The Tax Index is a fiscal yardstick designed by Tax Foundation economists to provide a continuing measure of trends in taxes on a basis comparable to official indexes for other segments of the economy. Data in the table on page 1 depict recent quarterly trends in taxes, output, and prices.

There was a significant rise in the nation's output in the first quarter of this year, but not so great as the rise in taxes. The nominal GNP index rose by 4.5 percent, an annual rate of 19 percent. A comparison of the relative movements in taxes and GNP reveals that for every 1 percent of the GNP rise, there was a rise of 1.5 percent in taxes. In other words, in the first quarter of the year taxes rose 50 percent faster than current dollar GNP.

Such sharp differentials in the rates of change between the two series are not likely to continue in the months ahead, according to Tax Foundation economists, since the higher social security tax provisions introduced in January will stabilize for the current year. Also, the rate of increase in revenues from the windfall profits tax may level off or decline.

Compared with the 408.2 Tax Index, the GNP index stood at 356.9 in the first quarter, the price index at 238.1 and the index of real output (inflation-adjusted GNP) at 149.9.

In absolute terms, first quarter 1981 taxes for all levels of government amounted to an annual equivalent of $895 billion—$611 billion Federal, and $284 billion state and local. These figures compare to a total of $219 billion in 1967—$148 billion in Federal and $71 billion in state and local taxes.

Taxes on income at all levels of government continue to show high rates of growth, as demonstrated by the Tax Index.

The index for state and local personal income taxes eased past the 800 mark in the first quarter of 1981, up by 20.6 percent over the same quarter of last year. The index for personal income tax receipts reached 462.9 in the first quarter—429.8 for Federal and 801.0 for state and local governments. In dollars, this amounted to $327.0 billion—$276.6 billion at the

(Continued on page 4)

About Tax Features

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New *Facts & Figures* Profiles U.S.

(Continued from page 1)

• Residents of the combined New York, Chicago, and Los Angeles metropolitan areas pay about 15 percent of all Federal taxes—over $50 billion to Uncle Sam annually.

• Wyoming received less Federal grant money than any other state in 1980—about $191 million. New York received the most—$9.6 billion, for which it paid only $7.3 billion of the taxes required to fund Federal grants.

• Federal personnel compensation and benefits in 1980 hit $118 billion—$77 billion for civilian employees and $41 billion for the military. In 1975, total personnel costs for both civilian and the military totaled $77 billion.

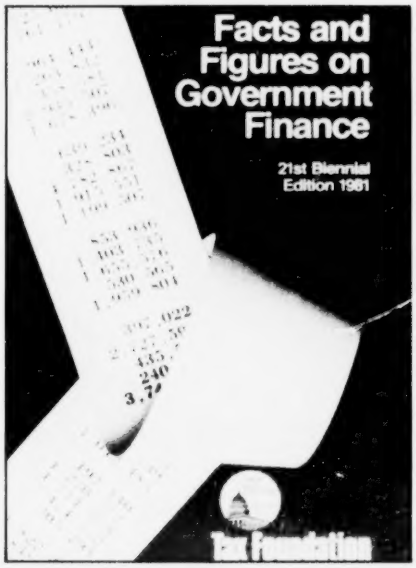
• In 1979, state and local units in Alaska paid more per capita than any other state for education, highways, and financial administration. That same year, the District of Columbia paid more per capita than any state for public welfare, health and hospitals, and police and fire protection. Besides Alaska, the states of Wyoming, the Dakotas, West Virginia, and Montana spend most on highways per capita.

• Indiana has the lowest level of state and local spending per $1,000 of personal income—$146. Missouri, with $155 per $1,000 of personal income is second lowest.

• State and local governments nationwide spend $24 per $1,000 of personal income on public welfare. Arizona spends least, $8 per $1,000 of personal income in 1979, largely because it is the only state in the Union not participating in the $20-odd-billion-a-year Medicaid program.

• Government in Nebraska depends on local financing for 44 percent of its revenues—more than any other state.

• State and local governments depend on the Federal government for 22 percent of their general revenue. In 1979, local governments received $209 billion in general revenue, of which only $117 billion came from local revenue sources; the rest came from Federal and state aid.



The 21st biennial edition of *Facts and Figures on Government Finance* is currently available from the Tax Foundation.

Included in the new edition are 250 tabulations of statistics on Federal, state, and local government and selected economic series, including 40 new tables on key areas; a glossary; an index; and notes. There are over 300 pages, arranged in six sections, each with its own table of contents.

The Foreword was written by Thomas M. Macioce, Chairman of the Tax Foundation.

Copies of *Facts and Figures on Government Finance*—21st edition—can be ordered from Tax Foundation, Incorporated, 1875 Connecticut Avenue, N.W., Washington, D.C. 20009. The cost of the new edition is $15.

• In Hawaii, over 75 percent of government finances are concentrated in state, rather than local government units. This is the highest ratio of state to local government in the nation.

• State and local governments in the United States owed more than $300 billion in outstanding debt at the end of 1979. In 1957, they owed only $53 billion. Also, in 1979, these units issued a record $42 billion in new long-term debt.

• Total medical public assistance —Medicaid—came to $19 billion in 1979, of which California and New York received nearly a third—about $6 billion.

• Public employees covered by state-administered retirement systems contribute about 20 cents per dollar of the funding of pensions. Earnings on investment of the funds account for another 33 cents. The balance of 47¢ per dollar comes from state and local government budgets—in other words, from the taxpayers.

• Cash and security holdings by state-administered public employee retirement systems totaled over $125 billion in 1979.

• The average weekly unemployment check in 1979 came to $89.67, compared to $32.87 in 1960.

• During the 1973-75 recession, unemployment benefits doubled in a single year, jumping from $6 billion to $12 billion, nationwide.

• In 1979, over 105 million weeks of unemployment were compensated. In the 1975 recession year, over 175 million weeks were compensated. The low point in unemployment payouts for the last two decades occurred in 1966, when 47 million weeks were compensated.

• In the 1970s, an average of nearly 350,000 unemployment claims were filed annually.

• Government transfer payments to persons—i.e., payments not matched by current production—almost quadrupled from 1969 to 1979. About three-fourths of the $240 billion so spent in 1979 represented payments under "social insurance" programs, such as social security, Medicare, and unemployment benefits. More than half went for retirement programs, largely OASDI and government employee pensions.

• "Baby Boomers" will dominate the labor force in 1990. At that time, workers between the ages of 25 and 44 will account for about 55 percent of the labor force, up from 44 percent in 1978.

(Continued on page 4)

Facts & Figures

(Continued from page 3)

• The number of persons below the poverty level declined dramatically from 1959 to 1979—from 39.5 million to 25.2 million, or 36 percent. Thus, the incidence of poverty was almost cut in half—from 22 percent of the population in 1959 to about 11 percent in 1979. For heads of families living on farms, the poverty rate fell from 45 percent to 11 percent during the same time span.

• The effective rate of Federal and state income taxes on profits of nonfinancial corporations was fairly constant in most years during the decade of the 1970s, at close to 50 percent—give or take a percentage point or two. The range between the two extreme years, however, was rather large—from 46 percent in 1972 to 66 percent in 1974.

• Of the 14.5 million active firms filing income tax returns for 1976, more than 11 million were single proprietorships. Among them, 8 million had annual receipts below $25,000. In the same year, the 2.1 million active corporations accounted for only 14 percent of the number of firms, but garnered 86 percent of all business receipts.

• Productivity (output per person-hour) of American workers in the private business sector declined in 1980 for the third year in a row. Compensation per hour, however, increased by more than 30 percent in the same period.

• The rate of growth in productivity in the United States has been the slowest among major industrial nations, averaging 2.2 percent a year since 1967. In contrast, productivity in Japan has increased at an annual rate of 7.2 percent.

• Only Italy and the United Kingdom devoted a smaller share of output to fixed capital formation in 1979 than did the United States. The U.S. figure was 19.0 percent, compared to 18.7 for Italy and 17.6 for the United Kingdom. In Japan, the proportion was 31.6 percent.

• Public and private wealth in the United States, as measured by the net stock of fixed reproducible tangible wealth, amounted to some $6.7 trillion at the end of 1979. More than $2.2 trillion of this, about one-third, was in the form of private residential structures. Government wealth was put at about $1.6 trillion, largely in the form of nonresidential buildings.

Facts and Figures on Government Finance, 21st edition, is available from the Tax Foundation. Single copies are $15.

Tax Index

(Continued from page 2)

Federal level, and $50.4 billion at the state and local level.

Taxes on corporate profits rebounded to an index of 278.3, up from 220.1 in last year's second quarter recession. The state-local component of the corporate profits tax reached 533.8 in first quarter 1981, up from its 1980 recession low of 431.9.

The accompanying tables reveal recent quarterly trends in the overall Tax Index, as compared with output and prices, along with annual data on the components of the Index for selected years since 1960.

Currently Available

"Memorandum on the Allocation of the Federal Tax Burden and Federal Grants-in-Aid by State, Fiscal Year 1981, 6 pages, single copies free.

"Allocating Tax Burdens and Government Benefits by Income Class, 1972-73 and 1977," Government Finance Brief No. 31, 31 pages, $2.50.

"The Reagan Budget for Fiscal 1982—A Summary," A Tax Foundation Special Report, April 1981, 27 pages, $1.00.

"The Congressional Budget Process at the Crossroads" by Maynard H. Waterfield (Special Report), January 1981, 14 pages, $1.00.

"Tax Policy, The Budget, and Unemployment," Proceedings of Tax Foundation's 32nd National Conference, 64 pages, $5.00.

Tax Index by Level of Government and Type of Tax
Selected Periods 1960-1981[a]
Index Numbers, 1967 = 100

Type of tax	1960	1970	1975	1980	1981[b]
			All governments		
All taxes	61.9	132.2	204.3	362.1	408.2
Personal income	62.8	141.5	203.3	418.9	462.9
Corporate profits	69.9	105.2	155.9	253.7	278.3
Indirect business taxes[c]	65.4	134.7	199.5	297.1	345.1
Social insurance contributions	48.7	135.0	257.0	475.2	544.9
All other[d]	61.4	123.2	164.4	226.4	231.1
			Federal government		
All taxes	64.3	127.5	191.0	359.6	412.2
Personal income	65.0	138.1	187.7	390.0	429.8
Corporate profits	71.4	102.0	145.1	233.8	257.4
Indirect business taxes[c]	86.0	119.3	145.9	237.6	364.9
Social insurance contributions	48.1	134.3	257.7	475.5	549.1
All other[d]	57.4	120.1	159.4	215.3	208.8
			State and local governments		
All taxes	56.9	142.1	232.1	367.2	400.0
Personal income	40.3	176.6	362.8	713.6	801.0
Corporate profits	50.9	144.5	287.9	497.1	533.8
Indirect business taxes[c]	59.4	139.2	215.1	314.4	339.4
Social insurance contributions	51.6	138.9	252.8	473.3	522.9
All other[d]	65.2	126.0	168.9	236.6	251.6

[a] Most taxes are shown on an accrual basis.
[b] First quarter at seasonally adjusted annual rate.
[c] Includes sales, excise, and customs levies, and real property taxes (including those on owner-occupied homes).
[d] Estate and gift and personal property taxes.
Source: Tax Foundation computations and estimates based on data from U.S. Department of Commerce, Bureau of Economic Analysis.

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MONTHLY TAX FEATURES

Volume 25, Number 8, September 1981

Tax Foundation, Incorporated

1875 Connecticut Avenue, N.W. ☐ Washington, D.C. 20009 ☐ 202-328-4500 ☐

Public Debt to Exceed $1 Trillion Mark; Interest Will Pass $100 Billion in 1982

While there are uncertainties and varying opinions as to the probable size of the budget deficit over the next few years, at least two things about the budget—not entirely unrelated to deficits—seem clear. The public debt during fiscal 1982 will top the $1 trillion level for the first time, and interest payments on that debt will pierce the $100 billion mark, according to Tax Foundation economists.

Officials at the Treasury Department appeared before a Senate panel in mid-September to ask Congress, for the 25th time in the last decade, to raise the "temporary" debt ceiling. They sought to hike the ceiling from the $985 billion level approved last February to $1.0798 trillion before the fiscal year ends on September 30. (The House had already approved a similar measure.)

The permanent debt limit, established in 1971, stands at $400 billion; and in the absence of new legislation, the ceiling would automatically revert to that figure on October 1.

(Continued on page 2)

Course of the Federal Debt
As of Selected Dates 1917-1981

Period and date	Public debt outstanding: Amount (billions)	Public debt outstanding: Per capita[a]	Interest on debt: Payments for fiscal year (millions)	Interest on debt: Computed annual rate (percent)
World War I:				
Prewar debt, March 31, 1917	$ 1.3	$ 12	$ 25	2.40
Highest war debt, August 31, 1919	26.6	250	1,020	4.20
Post World War I low debt, December 31, 1930	16.0	130	612	3.75
World War II:				
Debt preceding defense program, June 30, 1940	48.5	367	1,041	2.58
Highest war debt, February 28, 1946	279.8	1,990	4,722	1.97
Post World War II:				
Lowest postwar debt, April 30, 1949	251.6	1,690	5,339	2.24
Debt, June 30, 1960	286.5	1,587	9,180	3.30
June 30, 1970	371.5	1,812	19,304	5.56
June 30, 1975	533.2	2,469	32,665	6.35
September 30, 1978	771.5	3,456	48,695	7.13
September 30, 1979	826.5	3,661	59,837	8.06
September 30, 1980	907.7	3,976	74,781	9.03
September 1, 1981	983.9	4,273	96,500[b]	10.99[c]

[a]Based on population estimates including armed forces overseas.
[b]Mid-year review Budget estimate.
[c]As of July 31, 1981.
Source: Treasury Department; Office of Management and Budget; Bureau of the Census, Department of Commerce; and Tax Foundation computations.

30 States Hike Taxes For Net $2.5 Billion, Hitting 10-Year High

Tax action in 30 states will raise revenues by a net $2.5 billion a year, Tax Foundation economists report. This is the highest annual statutory increase in state taxes in ten years.

The 1981 tax hike compares with an increase of $420 million in 1980 and substantial reductions in the two preceding years, according to researchers at the Foundation. The $5 billion annual tax boost legislated by 30 states in 1971 remains the largest on record.

Higher general sales taxes will account for a significant portion ($860 million) of this year's tax increase. Sales tax rates were raised on a permanent basis by West Virginia and temporarily by Ohio, Minnesota, and Nevada. (New Mexico reduced its sales tax rate slightly.)

Reacting to a continuing squeeze on highway funds brought on by rising costs and declining gasoline usage, 24 states and the District of Columbia approved increases in motor fuel tax rates. This will bring in about $750 million a year, according to calculations by Tax Foundation economists.

To finance mass transit operations, New York approved a five-tax package to raise $793 million annually.

Action on the state income tax front was much lighter. New Mexico lowered its personal income tax rates, and Montana repealed a 10 percent surtax on personal income tax.

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The Front Burner

By Robert C. Brown
Executive Vice President
Tax Foundation, Incorporated

"Hold! Enough!"

The tax cut enacted by the Congress and signed into law by the President last month is easily the biggest dollar reduction in history. Its implications will not be known, much less absorbed into the economy, overnight. Consequently, it is imperative that the taxpayer, the business community and the Federal government have sufficient time to live with what has been wrought before any further reductions are attempted.

The changes already enacted into law will strain the resources of the IRS, the individual taxpayer, tax attorneys and accountants. The ultimate impact of the Economic Recovery Tax Act in terms of corporate planning and investment and also as regards any feedback effects are so uncertain at this stage of affairs that funneling any additional changes into the pipeline now might overload the system, creating a monumental backup. This is a risk we cannot afford to take.

However, a number of tax matters put into a holding pattern while the tax package was being wrestled with this summer are beginning to surface once again, issues such as tuition tax credits and free enterprise zones. In the wake of revised deficit projections, the Treasury and the tax writing committees will undoubtedly want to look at some revenue raising proposals such as tightening up on industrial development bonds and deductibility of fringe benefits.

All of these issues deserve to be debated. Some will eventually find their way into law. Now is not the time, however. There will undoubtedly be charges that those who are benefiting from the new law are taking an attitude of, "We got ours, the heck with everyone else." This is not at all the case, although the beneficiaries, particularly the business community, will have to back words with actions to demonstrate that they can do the job now that the tools have been placed in their hands.

The need to refrain from further tax action, no matter how worthwhile it may be, is much deeper than the alleged shortsightedness of those whose self-interest was served by the first bill. It is simply a case of the need to allow the system to adapt to the massive change that has been visited upon it. Having acquired the biggest tax cut in history, we are well advised to digest it and watch what happens. If we don't, we will wind up with the biggest case of fiscal indigestion anyone has ever seen.

Tax Foundation, Incorporated

MARK YOUR CALENDAR

Tax Foundation's 33rd National Conference and 44th Annual Dinner will be held this year on Wednesday, December 2nd at the Plaza Hotel in New York City. Details will follow in future issues of *Monthly Tax Features.*

Public Debt

(Continued from page 1)

Those concerned about the size of the debt *per se* can take some comfort in the fact that the debt has declined relative to the size of the nation's total output. During the peak years of World War II, for instance, the debt was equal to more than 133 percent of gross national product (GNP). As recently as 1964, the debt totaled more than one-half of the GNP. Today, the public debt is "only" about 35 percent of GNP.

The growth of interest payments on the rising debt and the resulting effects on the Federal budget are scarcely grounds for comfort. Interest on the public debt is estimated at $96.5 billion for fiscal year 1981 and at $108.6 billion for 1982. If interest rates continue at current levels, that amount will go even higher.

Less than a year ago, in December 1980, the debt ceiling was raised to $935.1 billion. Immediately following this year's change in Administra-

(Continued on page 4)

U.S. Family Saves $825 in 1984 Despite Bite of Inflation and FICA

The new Federal tax law will reduce Federal taxes by 16 percent in 1984 for the prototypical family whose salary rises in step with projected inflation, according to economists at the Tax Foundation. A savings of $825 will result from the cuts contained in the Economic Recovery Tax Act of 1981.

In fact, this family's real income—in terms of 1980 dollars—will be $15 higher in 1984, after Federal income and social security taxes have taken their bite, than it was in 1980, reversing the steady decline in the family's purchasing power which has occurred in recent years.

Tax Foundation economists describe the "prototypical" family as one which earns the median amount of income for all families with one earner employed full-time year-round and which consists of a married couple with two children. In 1980, the median income of this family was $20,586. If its earnings rise in step with projected inflation, the family will earn $26,926 in 1984, about 31 percent more than in 1980.

Under the old law, the family's Federal income and social security taxes in 1984 would have totaled $5,306, leaving an after-tax income of $21,620. After adjusting that income for the 31 percent rise in consumer prices, the family would be $616 poorer (constant 1980 dollars) in 1984, a 4 percent drop in real income.

This year's revisions in the tax law make that picture somewhat rosier. Now the family's income and social security taxes will total $4,481 in 1984, leaving an after-tax income of $22,445. In constant 1980 dollars, that amounts to $17,160, as compared to $17,145 in 1980. While this is no big gain—less than one-tenth of one percent in real after-tax income—it is a marked improvement over the $616, or 4 percent, decline which would have taken place had there been no tax cut this year.

Social security taxes were not affected by the 1981 legislation and will remain the same under the old and new laws. FICA will rise from 6.13 percent of the median family's income in 1980 to 6.7 percent in 1984, or from $1,262 to $1,804—a rise of about 43 percent.

The saving in income tax, however, is substantial. In 1980, the family paid $2,179 in Federal income taxes, an amount equal to 10.6 percent of its income. Under previous law, this income tax bite—by 1984—would have increased almost 61 percent—to $3,502, consuming 13.0 percent of the family's income. Under the 1981 tax law, the Federal income tax for this family will drop to $2,677 by 1984, only about 23 percent more than it paid in 1980, and to 9.9 percent of its total income. For the four-year period (1981-1984) the cumulative savings in income taxes due to the new law is $1,771.

Put in other terms, the family's direct Federal taxes (social security and income) under pre-1981 law would have risen from 16.7 percent of income in 1980 to 19.7 percent by 1984.

The accompanying table shows the effect of direct Federal taxes and inflation on this family's income between 1980 and 1984.

State-Local Pay Grew 149% in Last Decade; Employees up 30%

Paychecks for the nation's state and local government workers have shot up 149 percent in the last ten years, despite a much more modest 30 percent increase in the number of workers employed, Tax Foundation researchers indicate. In October 1980, latest data available, the monthly state-local payroll totaled $14.7 billion, compared with $5.9 billion a decade earlier and $2.2 billion 20 years ago.

For the same ten-year period, the gross national product (GNP) grew at 165 percent, the Tax Index climbed 174 percent, and inflation chalked up a 94 percent increase.

Last fall, 11 million full-time equivalent employees received paychecks from states or localities, whereas 8.5 million held public jobs at those levels in October 1970 and 5.6 million in 1960. The ratio of public employees to the public they serve has registered a 16 percent increase over the decade, from 420 per 10,000 of population in 1970 to 488 per 10,000 ten years later.

California employs the most public sector workers, 1.1 million last October, followed by New York, with 946,000. Ten years earlier, their relative positions were reversed. New

(Continued on page 4)

Effect of Direct Federal Taxes and Inflation on Purchasing Power of Median Income Family, 1980-1984

Item	1980	1981	1982	1983	1984
Median family income[a]	$20,586	$22,624[b]	$24,209[b]	$25,588[b]	$26,926[b]
Direct Federal taxes:			Under prior law		
Total	3,441	4,102	4,536	4,885	5,306
Income tax[c]	2,179	2,598	2,914	3,171	3,502
Social security	1,262	1,504	1,622	1,714	1,804
After tax income:					
Current dollars	17,145	18,522	19,673	20,703	21,620
1980 dollars	17,145	16,853[b]	16,729[b]	16,656[b]	16,529[b]
Direct Federal taxes:			Under current law		
Total	—	4,069	4,230	4,278	4,481
Income tax[c]	—	2,565	2,608	2,564	2,677
Social security	—	1,504	1,622	1,714	1,804
After tax income:					
Current dollars	—	18,555	19,979	21,310	22,445
1980 dollars	—	16,883[b]	16,989[b]	17,144[b]	17,160[b]

[a]Median income of all families with one earner, employed full-time year-round.
[b]Adjusted by the Consumer Price Index as forecast by the Administration in the Mid-Session Review of the Budget. The increases are 9.9% in 1981, 7.0% in 1982, 5.7% in 1983, and 5.2% in 1984.
[c]Married, filing joint return, with two dependent children.

About Tax Features

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State-Local Workers

(Continued from page 3)

York had 935,000 state-local workers then, compared with 892,000 in the Golden Gate State. Vermont employed the fewest public workers in October 1980 (25,000), while Alaska held that distinction a decade earlier, with 16,000.

State and local government employment rose by 0.9 percent in 1980, compared to a 1.1 percent increase in U.S. population. This represents a continuation in the slowing of state-local employment growth of the late 1970s, but it marks the first time in postwar history that state-local employment increases have fallen behind U.S. population.

In comparison, state-local public employment averaged 2.6 percent annual growth during the 1970s and 4.4 percent during the 1960s.

State and Local Government Employment and Payrolls

Month of October, 1970 and 1980

State	Employees[a] Number (000) 1970	1980	Percent increase	October payroll Amount (millions) 1970	1980	Percent increase	Employees[a] per 10,000 population Number 1970	1980	Percent increase
TOTAL	8,528	11,047	30	$5,906	$14,730	149	420	488	16
Alabama	136	196	44	70	214	206	394	504	28
Alaska	16	32	100	16	69	331	515	803	56
Arizona	77	137	78	56	198	254	435	506	16
Arkansas	73	106	45	34	105	209	380	465	22
California	892	1,108	24	784	1,864	138	447	468	5
Colorado	107	149	39	69	206	199	484	515	6
Connecticut	113	138	22	87	193	122	371	445	20
Delaware	26	31	19	17	39	129	472	526	11
Florida	295	459	56	186	546	195	434	471	9
Georgia	198	308	56	105	321	206	432	563	30
Hawaii	38	49	29	30	68	127	496	503	1
Idaho	32	45	41	17	54	218	455	481	6
Illinois	440	509	16	336	745	122	396	446	13
Indiana	199	248	25	125	295	136	383	451	18
Iowa	122	148	21	76	188	147	432	508	18
Kansas	106	127	20	61	146	139	470	536	14
Kentucky	115	155	35	65	177	172	356	423	19
Louisiana	160	224	40	88	240	173	438	532	21
Maine	41	51	24	22	59	168	412	458	11
Maryland	161	231	43	117	319	173	411	547	33
Massachusetts	228	287	26	162	395	144	401	500	25
Michigan	359	435	21	291	695	139	404	470	16
Minnesota	162	203	25	120	292	143	425	498	17
Mississippi	94	130	37	42	122	190	422	514	22
Missouri	184	229	24	111	261	135	392	465	19
Montana	33	44	33	20	54	170	479	556	16
Nebraska	74	93	26	43	109	153	498	590	18
Nevada	25	40	60	19	57	200	519	501	−3
New Hampshire	27	41	52	17	47	176	361	450	25
New Jersey	268	370	38	200	518	159	374	502	34
New Mexico	49	77	57	29	91	214	486	590	21
New York	935	946	1	754	1,393	85	514	539	5
North Carolina	189	298	58	112	342	205	372	508	37
North Dakota	28	33	18	17	43	153	450	503	11
Ohio	390	473	21	256	614	140	366	438	20
Oklahoma	107	158	48	59	171	190	420	524	25
Oregon	97	135	39	67	189	182	463	514	11
Pennsylvania	414	475	15	282	635	125	351	401	14
Rhode Island	36	45	25	25	62	148	379	471	24
South Carolina	103	161	56	53	172	225	396	516	30
South Dakota	32	34	6	18	37	106	483	500	4
Tennessee	162	225	39	85	248	192	414	490	18
Texas	454	695	53	265	826	212	405	488	20
Utah	48	68	42	30	88	193	449	463	3
Vermont	19	25	32	12	28	133	424	482	14
Virginia	184	269	46	115	321	179	396	503	27
Washington	160	204	28	120	314	162	468	495	6
West Virginia	72	100	39	39	108	177	412	511	24
Wisconsin	183	226	23	135	325	141	414	480	16
Wyoming	20	30	50	12	40	233	603	644	7
Dist. of Columbia	49	49	[b]	37	86	132	643	763	19

[a]Full-time equivalent employees.
[b]Less than .5%.
Source: Bureau of the Census, U.S. Department of Commerce; and Tax Foundation computations.

Public Debt

(Continued from page 1)

tion, the limit was raised to $985 billion, due to revert to $400 billion on September 30, 1981. As of September 1, the debt stood just a hairline under the $985 billion limit, in effect, signaling yet a third ceiling hike in one fiscal year period. At current levels, the debt amounts to a burden of $4,273 per man, woman, and child in the United States, according to Tax Foundation calculations.

The table on page 1 shows the course of the Federal debt for selected years since 1917.

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State Tax Action

(Continued from page 1)

Connecticut enacted a new 5 percent tax on unincorporated business income, and New Hampshire approved a 13.5 percent surtax on its business profits tax. Pennsylvania extended higher individual and corporate income tax rates which had been scheduled to terminate.

Details on state tax action to date for 1981 are given in the September issue of *Tax Review* available at no cost from the Foundation.